

# NOTES TO THE FINANCIAL STATEMENTS

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 1. PRINCIPAL ACTIVITIES AND OPERATIONS

The Company was incorporated in Bermuda as an exempted company with limited liability on 20th August, 1992 and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of a multi-discipline of building services in electrical engineering, water pumping and fire services, air conditioning installation, plumbing and drainage, environmental engineering, extra low voltage system engineering and project management, the trading of electrical and mechanical engineering materials and equipment, the provision of broadband connectivity services and the provision of design, installation and maintenance services of karaoke-on-demand systems.

## 2. PRINCIPAL ACCOUNTING POLICIES

### a. Basis of presentation

The financial statements of the Company and its subsidiaries (the “Group”) are prepared under the historical cost convention as modified by the valuation of other investments, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The consolidated financial statements include the accounts of the Company and its subsidiaries. The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition. All significant intra-group transactions and balances have been eliminated upon consolidation.

### b. Subsidiaries

A company is a subsidiary company if more than 50% of the issued voting capital is held long-term, directly or indirectly. Investments in subsidiaries are carried at cost in the Company’s balance sheet less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the income statement of the Company to the extent of dividends declared by the subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### c. Associated companies

An associated company is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investments in associated companies is accounted for under the equity method of accounting, whereby the investments are initially recorded at net asset value and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associated companies, distributions received from the associated companies and other necessary alterations in the Group's proportionate interest in the associated companies arising from changes in the equity of the associated companies that have not been included in the income statement.

In the Company's financial statements, investments in associated companies are carried at cost less provision for impairment in value where considered necessary by the directors. The results of the associated companies are included in the income statement to the extent of dividends declared by the associated companies.

### d. Investments

#### *Investment securities*

Investments, which represent equity securities, intended to be held on a continuing basis, are classified as investment securities and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the income statement, unless there is evidence that the decline is temporary. Provisions against the carrying value of investment securities are reversed to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

Upon disposal or transfer of the investment securities, any profit and loss thereon is accounted for in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **d. Investments** *(Continued)*

#### *Other investments*

Investments other than investment securities or held-to-maturity securities are classified as other investments and are carried at fair value in the balance sheet. Any unrealised holding gain or loss for other investments is recognised in the income statement in the period when it arises.

Upon disposal or transfer of other investments, any profit and loss thereon is accounted for in the income statement.

### **e. Goodwill**

Goodwill arising on acquisition of subsidiaries or associated companies represents the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separate assets and liabilities of the subsidiaries or associated companies at the date of acquisition.

Positive goodwill is eliminated directly against reserves and negative goodwill is credited directly to reserves.

### **f. Installation and maintenance contracts and contracts in progress**

The accounting policy for contract revenue is set out in note (g) below. When the outcome of installation and maintenance contracts can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **f. Installation and maintenance contracts and contracts in progress** *(Continued)*

Contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the “Gross amount due from customers for contract work” (as an asset) or the “Gross amount due to customers for contract work” (as a liability), as applicable. Amounts received before the related work is performed are included in the balance sheet, as a liability, as “Advances received”. Amounts billed, but not yet paid by customers, for work performed on a contract are included in the balance sheet under “Accounts receivable”.

### **g. Revenue recognition**

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenues are recognised as follows:

#### **(i) Sales of goods**

Sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to customers.

#### **(ii) Contract revenue**

To the extent that the outcome of the contract can be estimated reliably, revenue from a fixed price installation contract is recognised using the percentage of completion method, measured by reference to the percentage of certified work performed to date to estimated total contract sum for the contract. When the outcome of the contract cannot be estimated reliably, revenue is recognised only to the extent of certified work performed that it is probable will be recoverable.

Revenue from maintenance contracts is recognised when maintenance work orders are completed and accepted by the project sponsors.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### g. Revenue recognition *(Continued)*

#### (iii) **Installation, design and maintenance services income**

Services income from the installation, design and maintenance of karaoke-on-demand systems is recognised when the services are rendered.

#### (iv) **Service income of broadband connectivity**

Service income from broadband connectivity is recognised on an accrual basis over the life of the service agreement.

#### (v) **Interest income**

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

#### (vi) **Dividend income**

Dividend income is recognised when the right to receive payment is established.

#### (vii) **Project management income**

Project management income is recognised when the project management services are rendered.

### h. **Turnover**

Turnover comprises (i) the value of revenue certified under long-term installation contracts, (ii) the entire billings of maintenance work orders completed during the year, (iii) project management income, (iv) the value of sales of goods in the normal course of business, (v) income from the provision of broadband connectivity services, and (vi) income from the provision of design, installation and maintenance services of karaoke-on-demand systems.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **i. Taxation**

Companies within the Group provide for Hong Kong profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to be crystallised in the foreseeable future.

### **j. Stocks**

Stocks are carried at the lower of cost and net realisable value.

Cost is based on the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the stocks to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When stocks are sold, the carrying amount of those stocks is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of stocks to net realisable value and all losses of stocks are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of stocks, arising from an increase in net realisable value, is recognised as a reduction in the amount of stocks recognised as an expense in the period in which the reversal occurs.

Provision is made for obsolete, slow-moving or defective items where appropriate.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### k. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets having 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 fixed assets, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life.

The annual rates of depreciation are as follows:

Leasehold land and properties held under medium-term leases	2%
Machinery and equipment	20-30%
Furniture and office equipment	20%
Motor vehicles	20%

Depreciation on leasehold improvements is provided at the shorter of the lease terms or the estimated useful lives of three years, equivalent to  $33\frac{1}{3}\%$  per annum. Costs of tools and small equipment are charged to the income statement as and when incurred.

Assets held under finance leases are depreciated over their expected useful lives (or, where shorter, the terms of the lease) on the same basis as owned assets.

A write-down will be made if the recoverable amount of fixed assets is below the carrying amount. The write-down will be charged to the income statement as expenses. In determining the recoverable amount, expected future cash flows are not discounted to their present values. A subsequent increase in the recoverable amount of an asset carried at recoverable amount is written back when the circumstances that led to the write-down cease to exist. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down not occurred.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### k. Fixed assets and depreciation *(Continued)*

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

### l. Foreign currency

The books and records are maintained in Hong Kong dollars. Transactions in other currencies during the year are translated into Hong Kong dollars at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the income statement.

### m. Leases

#### (i) Finance leases

Leases that transfer to the Group substantially all the rewards and risks of ownership of the assets, other than legal title, are accounted for as finance leases.

Fixed assets held under finance leases are initially recorded at the present value of the minimum lease payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or non-current liabilities.

Finance charges, which represent the difference between the minimum lease payments at the inception of the leases and the fair value of assets, are allocated to accounting periods over the period of the relevant leases so as to produce a constant periodic rate of charge on the outstanding balances.

#### (ii) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **n. Pension scheme**

The Group's contributions to the mandatory provident fund scheme and the defined contribution retirement scheme are expensed as incurred. Contributions to the defined contribution retirement scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of both schemes are held separately from those of the Group in independently administered funds.

### **o. Cash and cash equivalents**

Cash represents cash in hand and deposits with any bank or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control 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.

Particulars of significant transactions between the Group and related companies are summarised below:

	<b>2001</b>	<b>2000</b>
	<i>\$'000</i>	<i>\$'000</i>
Purchases of merchandise from Shun Cheong Electrical Products Factory Limited ( <i>Note a</i> )	1,766	3,208
Payment to Diyixian.com Limited ("Diyixian") of rental for server co-location at Diyixian's data centres and for access to the Internet together with related setup charges ( <i>Note b</i> )	1,576	—
Provision of services to Diyixian in respect of installation and maintenance of electrical, mechanical, ventilation and air-conditioning systems in Diyixian's data centre ( <i>Note b</i> )	<u>5,140</u>	<u>—</u>

*Notes:*

- (a) Shun Cheong Electrical Products Factory Limited is a company in which Mr. Kwok Shun On and Ms. Kwok Lai Sheung, Melissa, directors of the Company, have indirect beneficial interest. Mr. Kwok Shun On ceased to be a director of the Company on 16th July, 2001.
- (b) Diyixian is a wholly-owned subsidiary of Dyxnet Holdings Limited, which is an associated company of the Group. Mr. Kwok Shun On, director of the Company, is also the director of Diyixian and Dyxnet Holdings Limited. Mr. Kwok Shun On ceased to be a director of the Company on 16th July, 2001.

In the opinion of the directors of the Company, all the above transactions were undertaken in the normal course of business and were conducted on normal commercial terms on an arm's length basis.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 4. TURNOVER AND OTHER REVENUES

Consolidated turnover and other revenues, all of which were substantially carried out in Hong Kong, comprised the following:

	<b>2001</b> \$'000	<b>2000</b> \$'000 (Note 29)
Building services contracting business	763,088	666,700
Project management income	4,248	6,004
Trading of electrical and mechanical engineering materials and equipment	23,067	33,267
Provision of broadband connectivity services	11,335	—
Provision of design, installation and maintenance services of karaoke-on-demand systems	31,044	—
	<hr/>	<hr/>
Total turnover	832,782	705,971
	<hr/>	<hr/>
Interest income	5,551	6,313
Others	294	2,599
	<hr/>	<hr/>
Total other revenues	5,845	8,912
	<hr/>	<hr/>
Total revenues	<u>838,627</u>	<u>714,883</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 5. (LOSS) PROFIT BEFORE TAXATION

Consolidated (loss) profit before taxation is stated after charging and crediting the following:

	2001 \$'000	2000 \$'000
<b>Charging:</b>		
Interest expense on bank overdrafts and loans wholly repayable within five years	3,280	3,005
Operating lease rental in respect of land and buildings	4,844	1,644
Depreciation		
– Owned fixed assets	3,726	2,055
– Fixed assets held under finance leases	291	135
Loss on disposal of fixed assets	—	84
Auditors' remuneration	821	580
Provision for bad debts	261	1,230
Finance charges on finance leases	82	84
Foreign exchange loss, net	66	—
Staff (including directors) costs	65,974	45,373
Cost of inventories	15,738	26,135
<b>Crediting:</b>		
Interest income from bank deposits	5,551	6,313
Foreign exchange gain, net	—	223

## 6. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Consolidated (loss) profit attributable to shareholders includes a loss of approximately \$40,096,000 (2000 – profit of approximately \$8,744,000) dealt with in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- a. Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and the provisions of the Listing Rules are as follows:

	<b>2001</b> \$'000	<b>2000</b> \$'000
Fees		
– Executive directors	—	—
– Non-executive directors	240	230
	<u>240</u>	<u>230</u>
Other emoluments		
– Basic salaries and allowances	3,032	2,891
– Contributions to provident fund	217	215
	<u>3,249</u>	<u>3,106</u>
Total	<u><u>3,489</u></u>	<u><u>3,336</u></u>

No directors waived or agreed to waive any emoluments during the year (2000 – Nil).

An analysis of directors' emoluments by number of directors and emoluments ranges is as follows:

	<b>2001</b>	<b>2000</b>
Up to \$1,000,000	6	8
\$1,000,001 to \$1,500,000	1	1
\$1,500,001 to \$2,000,000	—	—
\$2,000,001 to \$2,500,000	1	1
	<u>8</u>	<u>10</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

- b. Details of emoluments paid to the five (2000 – five) highest paid individuals (including directors and employees) are as follows:

	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Basic salaries and allowances	6,202	5,318
Contributions to provident fund	289	329
	<u>6,491</u>	<u>5,647</u>

Two (2000 – Two) of the five (2000 – five) highest paid individuals were directors of the Company, whose remuneration has been included in Note 7a.

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as inducement to join the Group or as compensation for loss of office.

An analysis of emoluments paid to the five highest paid individuals (including directors and employees) by number of individuals and emoluments ranges is as follow:

	<b>2001</b>	<b>2000</b>
Up to \$1,000,000	1	3
\$1,000,001 to \$1,500,000	3	1
\$1,500,001 to \$2,000,000	—	—
\$2,000,001 to \$2,500,000	1	1
	<u>5</u>	<u>5</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 8. TAXATION

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 16% (2000 – 16%) on the estimated assessable profits arising in or derived from Hong Kong.

Taxation in the consolidated income statement comprises:

	<b>2001</b> \$'000	<b>2000</b> \$'000
Current year provision for profits tax:		
The People's Republic of China:		
Hong Kong	(7,655)	(6,946)
Elsewhere outside Hong Kong	(55)	—
Overseas	—	—
Prior year (under) overprovisions of profits tax:		
The People's Republic of China:		
Hong Kong	(222)	5
Elsewhere outside Hong Kong	—	—
Overseas	—	—
Deferred taxation (Note 22)	331	674
Share of taxation of associated companies	—	—
Tax charges for the year	<u>(7,601)</u>	<u>(6,267)</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 9. DIVIDEND

	<b>2001</b> \$'000	<b>2000</b> \$'000
No final dividend proposed for the year ended 31st March, 2001 (2000 – 1.75 cents per share)	—	6,779
Additional final dividend for the prior year due to exercise of share options	—	14
	<u>—</u>	<u>14</u>
	<u>—</u>	<u>6,793</u>

## 10. (LOSS) EARNINGS PER SHARE

	<b>2001</b> \$'000	<b>2000</b> \$'000
(Loss) Earnings for the purposes of computing basic and diluted (loss) earnings per share	<u>(35,419)</u>	<u>32,028</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of computing basic (loss) earnings per share	387,357,016	332,445,350
Effect of dilutive potential ordinary shares:		
Share options	<u>85,264</u>	<u>3,384,281</u>
Weighted average number of ordinary shares for the purpose of computing diluted (loss) earnings per share	<u>387,442,280</u>	<u>335,829,631</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 11. FIXED ASSETS

Movements in consolidated fixed assets are as follows:

	2001					2000	
	Leasehold land and properties \$'000	Machinery and equipment \$'000	Furniture and office equipment \$'000	Motor vehicles \$'000	Leasehold improvements \$'000	Total \$'000	Total \$'000
<b>Cost</b>							
Beginning of year	22,378	140	7,674	3,246	2,822	36,260	32,625
Additions	—	12,126	6,388	1,123	760	20,397	4,162
Acquisition of subsidiaries	—	—	189	—	128	317	—
Disposal	—	—	(267)	—	(1,857)	(2,124)	(527)
End of year	22,378	12,266	13,984	4,369	1,853	54,850	36,260
<b>Accumulated depreciation</b>							
Beginning of year	1,976	134	4,873	1,504	2,699	11,186	9,049
Charge for the year	447	1,081	1,561	736	192	4,017	2,190
Write-back on disposal	—	—	(267)	—	(1,818)	(2,085)	(53)
Provision for impairment in value	—	4,942	3,030	—	—	7,972	—
End of year	2,423	6,157	9,197	2,240	1,073	21,090	11,186
<b>Net book value</b>							
End of year	19,955	6,109	4,787	2,129	780	33,760	25,074
Beginning of year	20,402	6	2,801	1,742	123	25,074	23,576

The Group's leasehold land and properties are located in Hong Kong and held under medium-term leases.

Certain of the Group's leasehold land and properties with a total net book value of approximately \$17,249,000 (2000 – \$17,633,000) are mortgaged as collateral to support the Group's banking facilities which are detailed in Note 25.

Net book value of motor vehicles includes an amount of approximately \$1,325,000 (2000 – \$1,616,000) in respect of assets held under finance leases.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 12. INVESTMENTS IN SUBSIDIARIES

In the Company's balance sheet, investments in subsidiaries comprise:

	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Unlisted shares, at cost	33,116	33,116
Due from subsidiaries	157,547	130,396
Due to subsidiaries	—	(46)
Less: Provision for amounts due from subsidiaries	(73,187)	—
	<u>117,476</u>	<u>163,466</u>

The balances due from and due to subsidiaries are unsecured, non-interest bearing and have no fixed repayments terms. The Company will not demand repayment from the subsidiaries until the subsidiaries are financially capable to do so.

The directors are of the opinion that the underlying values of the subsidiaries are not less than their carrying values as at 31st March, 2001.

Details of subsidiaries as at 31st March, 2001 are as follows:

Name	Place of incorporation and operations	Ordinary shares held		Issued and fully paid share capital	Principal activities
		Directly	Indirectly		
Shun Cheong Investments Limited	The British Virgin Islands	100%	—	US\$100	Investment holding
Shun Cheong Engineering Limited	The British Virgin Islands	—	100%	US\$1	Investment holding
Shun Cheong International Limited	The British Virgin Islands	—	100%	US\$1	Investment holding
Shun Cheong Electrical Engineering Company Limited	Hong Kong	—	100%	\$4,000,100	Design, installation, repair and maintenance of electrical and mechanical systems
Shun Cheong Technologies Limited	Hong Kong	—	99%	\$328,500	Inactive

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and operations	Ordinary shares held		Issued and fully paid share capital	Principal activities
		Directly	Indirectly		
Shun Cheong (China) Limited	Hong Kong	—	100%	\$2	Inactive
Shun Cheong Automation Systems Limited	Hong Kong	—	85%	\$2,000,000	Design and installation of computer control systems and building automation projects
Shun Cheong Enterprise Limited	Hong Kong	—	90%	\$1,000,000	Inactive
Shun Cheong Management Limited	Hong Kong	—	100%	\$2	Provision of management services
Tinhawk Company Limited	Hong Kong	—	90%	\$2,000,000	Installation and maintenance of water pumps and fire prevention and fighting systems
Ecotech Engineering Limited	Hong Kong	—	89.99%	\$650,001	Design, installation and maintenance of waste-water treatment systems
Griffon International Trading Company Limited	Hong Kong	—	75%	\$3,000,000	Inactive
Griffon-Power Company Limited	Hong Kong	—	75%	\$1,000,000	Inactive
Freeman Industrial Supplies Company Limited	Hong Kong	—	70%	\$1,000,000	Inactive
Shun Cheong M&E Limited	Hong Kong	—	100%	\$663,000	Trading of electrical generators and uPVC conduits and trunking systems
Shun Cheong Electrical Supplies Company Limited	Hong Kong	—	100%	\$100,000	General trading of materials and equipment for electrical installation

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and operations	Ordinary shares held		Issued and fully paid share capital	Principal activities
		Directly	Indirectly		
Shun Cheong Real Estates Limited	Hong Kong	—	100%	\$10,000	Property holding
China Century (Holdings) Limited	Hong Kong	—	99.9%	\$5,402	Inactive
Alsford Holdings Limited	The British Virgin Islands	—	100%	US\$1	Investment holding
Westco Airconditioning Limited	Hong Kong	—	100%	\$2,200,000	Design, installation and maintenance of heating ventilation and airconditioning systems
Newise Property Limited	Hong Kong	—	100%	\$100	Investment holding
Premier.com Limited	The British Virgin Islands	—	100%	US\$1	Investment holding
Shun Cheong KME Company Limited	Hong Kong	—	70%	\$2,000,000	Design, installation and maintenance of communication network
Speedlink Limited	Hong Kong	—	72%	\$10,000,000	Provision of broadband connectivity services
Well Admire Limited	Hong Kong	—	100%	\$2	Investment holding
Super Highway Services Limited	The British Virgin Islands	—	100%	US\$1	Investment holding
Wonderland.com Limited	The British Virgin Islands	—	100%	US\$1	Investment holding
Always-winNet.com Limited	The British Virgin Islands	—	100%	US\$1	Investment holding
Interlink Consultants & Engineering Limited	Hong Kong	—	100%	\$500,000	Trading of audio and video equipment

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and operations	Ordinary shares held		Issued and fully paid share capital	Principal activities
		Directly	Indirectly		
Pacific Link Global International Limited	The British Virgin Islands	—	100%	US\$1	Investment holding
Investrade International Limited	The British Virgin Islands	—	80%	US\$100	Investment holding
Binary KOD Limited	The British Virgin Islands	—	57.2%	US\$2,000	Investment holding
Diamond Day Company Limited	The British Virgin Islands	—	57.2%	US\$1	Investment holding
Argus Field Company Limited	The British Virgin Islands	—	57.2%	US\$1	Investment holding
Stage Engineering (HK) Company Limited	Hong Kong	—	57.2%	\$300,000	Stage lighting installation
Binary Evolution Computer Limited	Hong Kong	—	57.2%	\$1,000	Software development
KOD Hong Kong Limited	Hong Kong	—	57.2%	\$1,000	Renting of karaoke-on-demand systems
KOD International Limited	Hong Kong	—	57.2%	\$1,000	Inactive

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March, 2001.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 13. INVESTMENTS IN ASSOCIATED COMPANIES

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Share of net assets (liabilities) of associated companies	9,307	(147)
Amounts due from associated companies	—	156
	<u>9,307</u>	<u>9</u>

As at 31st March, 2001, the Group had an investment in an associated company, Dyxnet Holdings Limited, with an original investment cost of approximately \$33,031,000, including goodwill of approximately \$23,726,000 which was eliminated against reserves during the year. As at 31st March, 2001, the carrying value of the investment in this associated company was approximately \$9,305,000.

The directors are of the opinion that the underlying values of the interest in associated companies are not less than their carrying values as at 31st March, 2001.

Details of the associated companies as at 31st March, 2001 are as follows:

<b>Name</b>	<b>Place of incorporation and operations</b>	<b>Ordinary shares held</b>		<b>Issued and fully paid share capital</b>	<b>Principal activities</b>
		<b>Directly</b>	<b>Indirectly</b>		
Luckfaith Far East Ltd.	Hong Kong	—	50%	\$10,000	Inactive
MIT Shun Cheong Co. Ltd.	Hong Kong	—	50%	\$2	Inactive
Marshall Tufflex (Hong Kong) Limited (Under members' voluntary liquidation)	Hong Kong	—	50%	\$2,000,000	Inactive
Dyxnet Holdings Limited	The Cayman Islands	—	24.14%	US\$139,040	Internet services provider

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 14. INVESTMENTS

Non-current investments are analysed as follows:

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Investment securities <sup>(a)</sup>	15,678	32,460
Other investments <sup>(b)</sup>	1,783	14,985
	<u>17,461</u>	<u>47,445</u>

(a) **Investment securities**

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Unlisted equity securities, at cost	53,976	32,460
Less: Provision for impairment in value	(38,298)	—
	<u>15,678</u>	<u>32,460</u>

As at 31st March, 2001, the Group held 8.91% and 7.7% equity interests in two unlisted companies with original investment costs of \$19,460,000 and \$34,516,000 respectively. During the year ended 31st March, 2001, the Group made a provision for impairment in the carrying values of these investments of approximately \$15,473,000 and \$22,825,000 respectively. As at 31st March, 2001, the carrying values of these investments were approximately \$3,987,000 and \$11,691,000 respectively.

The directors are of the opinion that the underlying values of the investment securities are not less than their carrying values as at 31st March, 2001.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 14. INVESTMENTS *(Continued)*

### (b) Other investments

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	<i>\$'000</i>	<i>\$'000</i>
Unlisted equity securities, at carrying value	—	14,985
Listed equity securities in Hong Kong, at carrying value	1,783	—
	<u>1,783</u>	<u>14,985</u>
Quoted market value of listed equity securities	<u>1,783</u>	<u>N/A</u>

During the year ended 31st March, 2001, the Group disposed of the unlisted equity securities in exchange for certain listed equity securities in Hong Kong. The resultant realised loss of approximately of HK\$13,202,000 was charged to the consolidated income statement.

## 15. GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	<i>\$'000</i>	<i>\$'000</i>
Long-term installation contracts:		
Cost plus attributable profits less allowances for foreseeable losses	567,049	501,825
Less: Progress billings received and receivable	(490,474)	(439,119)
	<u>76,575</u>	<u>62,706</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 16. STOCKS

Stocks comprise electrical cables, conduits, wiring accessories, light fittings, switch gear and computer equipment.

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Merchandise for sale	9,498	6,299
Less: Provision for obsolescence	(2,922)	—
	<u>6,576</u>	<u>6,299</u>

## 17. ACCOUNTS RECEIVABLE

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Accounts receivable	192,270	136,688
Less: Provision for bad debts	(6,628)	(8,283)
	<u>185,642</u>	<u>128,405</u>

An ageing analysis for accounts receivable (after netting off provision for bad debts) is as follow:

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
0 – 30 days	126,533	104,655
31 – 60 days	13,337	6,713
61 – 90 days	11,151	1,796
91 – 180 days	21,080	7,772
Over 180 days	13,541	7,469
	<u>185,642</u>	<u>128,405</u>

The Group grants its trade customers credit periods normally ranging from cash on delivery to 60 days. A longer credit period is granted to a few customers with long business relationship and strong financial position.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 18. GROSS AMOUNT DUE TO CUSTOMERS FOR CONTRACT WORK

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Long-term installation contracts:		
Progress billings received and receivable	1,029,325	885,210
Less: Cost plus attributable profits less allowances for foreseeable losses	(949,526)	(801,760)
	<u>79,799</u>	<u>83,450</u>
<i>Representing:</i>		
Payments on account	79,198	82,849
Provision for loss	<u>601</u>	<u>601</u>
	<u>79,799</u>	<u>83,450</u>

## 19. ACCOUNTS PAYABLE AND ACCRUALS

The ageing analysis for accounts payable and accruals is as follow:

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
0 – 30 days	48,370	62,709
31 – 60 days	20,496	8,501
Over 60 days	<u>3,719</u>	<u>3,570</u>
	72,585	74,780
Accruals	<u>7,200</u>	<u>5,735</u>
	<u>79,785</u>	<u>80,515</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 20. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

Loans from minority shareholders of subsidiaries are unsecured, non-interest bearing and are not repayable within one year.

## 21. OBLIGATIONS UNDER FINANCE LEASES

Details of obligations under finance leases are as follows:

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Obligations payable within 5 years:		
Gross amount	562	1,043
Less: Future finance charges	(95)	(176)
	<hr/>	<hr/>
	467	867
Amount due within one year	(400)	(400)
	<hr/>	<hr/>
	67	467
	<hr/>	<hr/>

## 22. DEFERRED TAXATION

Deferred taxation mainly represents the taxation effect of the cumulative difference in profit relating to incomplete long-term installation contracts of approximately \$2,226,000 (2000 – \$2,557,000).

Movements in deferred taxation are as follows:

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Beginning of year	2,557	3,231
Reversal of timing differences (Note 8)	(331)	(674)
	<hr/>	<hr/>
End of year	2,226	2,557
	<hr/>	<hr/>

As at 31st March, 2001, the Group had no unrecognised potential deferred tax assets in respect of unutilised tax losses (2000 – \$411,000).

The Group and the Company had no other significant unprovided deferred taxation for the year or as at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 23. SHARE CAPITAL

	2001		2000	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
a. <i>Authorised:</i>				
Ordinary shares of \$0.1 each	<u>800,000</u>	<u>80,000</u>	<u>800,000</u>	<u>80,000</u>
b. <i>Issued and fully paid:</i>				
Ordinary shares of \$0.1 each				
Beginning of the year	387,372	38,737	325,042	32,504
Shares issued under placement and subscription	—	—	45,000	4,500
Shares issued upon exercise of share options	—	—	17,330	1,733
Shares repurchased	<u>(350)</u>	<u>(35)</u>	<u>—</u>	<u>—</u>
End of the year	<u>387,022</u>	<u>38,702</u>	<u>387,372</u>	<u>38,737</u>

Shares repurchased were cancelled and the issued share capital of the Company was reduced by the total nominal value of such repurchased shares. The difference between the nominal value of share repurchased and the price paid was of approximately \$52,000 charged against the share premium account. The aggregate cost of the repurchase of shares of \$87,000 was transferred from retained profits to capital redemption reserve.

### c. Share Options

Pursuant to the Company's share option scheme adopted on 15th September, 1992, the Company may grant options to directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time.

During the year ended 31st March, 2001, no options were granted by the Company under the share option scheme to directors and employees of the Group

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 23. SHARE CAPITAL *(Continued)*

### c. Share Options *(Continued)*

During the year ended 31st March, 2000, options to subscribe for 17,480,000 shares in the Company were granted under the share option scheme to directors and employees of the Group, out of which options to subscribe for 17,330,000 shares in the Company were exercised during the year ended 31st March, 2000. The remaining option to subscribe for 150,000 shares in the Company granted to an employee of the Group was not exercised as at 31st March, 2001.

A summary of the movements in the options at the following subscription prices during the years ended 31st March, 2001 and 2000 and the balances outstanding as at 31st March, 2001 and 2000 under the share option scheme are as follows:

Exercise price per share HK\$	Exercise period	Number of share options			
		Balance at 1st April, 2000	Granted during the year	Exercised during the year	Balance at 31st March, 2001
0.1785	27/4/1999 – 26/4/2001	150,000	—	—	150,000

Exercise price per share HK\$	Exercise period	Number of share options			
		Balance at 1st April, 1999	Granted during the year	Exercised during the year	Balance at 31st March, 2000
0.1785	27/4/1999 – 26/4/2001	—	9,480,000	9,330,000	150,000
0.2840	21/12/1999 – 20/12/2001	—	8,000,000	8,000,000	—
		—	17,480,000	17,330,000	150,000

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 24. RESERVES

	2001				2000	
	Share premium \$'000	Contributed surplus* \$'000	Capital redemption reserve \$'000	Retained profits (Accumulated deficit) \$'000	Total \$'000	Total \$'000
<b>Consolidated</b>						
Balance as at 1st April, 2000	102,972	—	—	52,623	155,595	100,333
Share premium arising from placement and subscription	—	—	—	—	—	27,900
Share premium arising from exercise of share options	—	—	—	—	—	2,204
Repurchase of shares	(52)	—	—	—	(52)	—
Transfer of reserves on repurchase of shares (Note 23)	—	—	87	(87)	—	—
(Loss) Profit attributable to shareholders	—	—	—	(35,419)	(35,419)	32,028
Dividends declared	—	—	—	—	—	(6,793)
Writing off of goodwill arising from acquisition of subsidiaries	—	—	—	(12,680)	(12,680)	(77)
Writing off of goodwill arising from acquisition of an associated company	—	—	—	(23,726)	(23,726)	—
Balance as at 31st March, 2001	<u>102,920</u>	<u>—</u>	<u>87</u>	<u>(19,289)</u>	<u>83,718</u>	<u>155,595</u>
Attributable to:						
– the Company and subsidiaries	102,920	—	87	(17,119)	85,888	157,746
– associated companies	—	—	—	(2,170)	(2,170)	(2,151)
	<u>102,920</u>	<u>—</u>	<u>87</u>	<u>(19,289)</u>	<u>83,718</u>	<u>155,595</u>
<b>Company</b>						
Balance as at 1st April, 2000	102,972	14,009	—	1,953	118,934	86,879
Share premium arising from placement and subscription	—	—	—	—	—	27,900
Share premium arising from exercise of share options	—	—	—	—	—	2,204
Repurchase of shares	(52)	—	—	—	(52)	—
Transfer of reserves on repurchase of shares (Note 23)	—	—	87	(87)	—	—
(Loss) Profit for the year	—	—	—	(40,096)	(40,096)	8,744
Dividends declared	—	—	—	—	—	(6,793)
Balance as at 31st March, 2001	<u>102,920</u>	<u>14,009</u>	<u>87</u>	<u>(38,230)</u>	<u>78,786</u>	<u>118,934</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*

## 24. RESERVES *(Continued)*

\* *Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition of the subsidiaries under a group reorganisation in 1992. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders.*

As at 31st March, 2001, the Company had no distributable reserves (2000 – \$15,962,000).

## 25. BANKING FACILITIES AND PLEDGED ASSETS

As at 31st March, 2001, the Group had aggregate banking facilities of approximately \$152 million (2000 – \$141 million) from several banks for overdrafts, letters of credit and bank guarantees. Unused facilities as at the same date amounted to approximately \$19 million (2000 – \$70 million). These facilities are secured by:

- (i) Letters of guarantee signed by the Company of approximately \$136 million (2000 – \$125 million);
- (ii) Bank deposits of approximately \$26.8 million (2000 – \$26.8 million);
- (iii) Leasehold land and properties with a total net book value of approximately \$17 million (2000 – \$18 million).

## 26. PENSION SCHEME

The Group has a defined contribution provident fund for its employees (including executive directors) (the "ORSO Scheme"), which is managed by an independent trustee. The Group makes monthly contributions to the scheme at 5% to 15% of the employees' basic salaries while the employees are not required to make any contributions. The employees are entitled to receive 100% of the contributions made by the Group together with the accrued earnings thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service. Forfeited contributions and related earnings are used to reduce the contributions payable by the Group.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 26. PENSION SCHEME *(Continued)*

During the year ended 31st March, 2001, the Group's aggregate employers' contributions, net of forfeited contributions, are as follows:

	<b>Consolidated</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
Gross employers' contributions	2,442	2,355
Less: Forfeited contributions utilised to offset employers' contributions	(429)	(213)
Net employers' contributions	<u>2,013</u>	<u>2,142</u>

As at 31st March, 2001, the amount of forfeited contributions arising from employees leaving the scheme before becoming fully vested and which was available to reduce the contributions payable by the Group in the future was approximately \$2,000 (2000 – \$25,000).

Since 1st December, 2000, the Group has arranged for its newly hired employees in Hong Kong to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme was introduced pursuant to the Mandatory Provident Fund legislation introduced during the year. Members of ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of \$20,000. For those employees with monthly earnings of less than \$4,000, the employees are not required to make any contributions.

During the year, the aggregate amount of employer's contributions made by the Group to the MPF Scheme was approximately \$463,000 (2000 – Nil). The Group's contributions to the MPF Scheme are charged to the consolidated income statement in the period to which they relate.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2001

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## 27. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31st March, 2001, the Group had the following outstanding commitments:

- (a) As at 31st March, 2001, the Group's contracts on hand had an aggregate uncompleted contract value of approximately \$435 million (2000 – \$824 million) extending to various dates, the latest being September 2003.
- (b) The total amount of operating lease commitments in respect of land and buildings as at 31st March, 2001 amounted to approximately \$5,535,000 (2000 – \$1,946,000). The amounts of commitments payable within the next twelve months are analysed as follows:

	<b>2001</b>	<b>2000</b>
	\$'000	\$'000
Operating leases:		
Expiring in the first year	752	264
Expiring in the second to fifth years inclusive	2,442	1,062
	<u>3,194</u>	<u>1,326</u>

As at 31st March, 2001, the Group had no material contingent liabilities.

## 28. SUBSEQUENT EVENT

On 14th June, 2001 the Company announced the placement of 75,000,000 new shares of the Company at a price of \$0.20 per share to more than six professional and private investors. The net proceeds from the placement, after deducting relevant expenses, would amount to approximately \$14.5 million.

On 13th July, 2001, the Company announced that the placement of 75,000,000 new shares of the Company lapsed as the Company could not fulfill the conditions of the completion of the placement by 13th July, 2001.

## 29. COMPARATIVE FIGURES

Project management income of approximately \$6,004,000 for the year ended 31st March, 2000 has been reclassified from other revenues to turnover to conform to the current year's presentation.

## 30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 26 to 66 were approved by the Board of Directors on 24th August, 2001.