# NOTES TO THE FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Appendix 16 of the Listing Rules of The Stock Exchange of the Hong Kong Limited. The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31st March 2001 except for the changes in accounting policies as discussed below:

SSAP 30 "Business Combinations" requires that goodwill arising from the acquisition of subsidiaries or associated companies, being the excess of the purchase consideration over the fair value of the Group's share of the identifiable net assets acquired, to be recorded as an asset and amortised, on a straight-line basis to the consolidated income statement over its estimated useful life. The Group has previously eliminated acquired goodwill against reserves. The transitional provision in SSAP 30 is adopted and the goodwill is not restated. In addition, in accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be reinstated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the income statement.

Except for changes as described above, the adoption of SSAP 9 (revised), SSAP 14 (revised), SSAP 17 (revised), SSAP 26, SSAP 28, SSAP 29, SSAP 31 and SSAP 32 does not have a material impact on the reported financial position or results of the Group.

The consolidated interim financial statements include the financial statements of the Company and its subsidiaries. All significant intra-group transactions and balances have been eliminated upon consolidation.

## 2. TURNOVER

Turnover mainly represents the aggregate amount of gross certified value earned from construction, maintenance and demolition contracts. Gross certified value earned from construction and demolition contracts is recognised only when the value of work certified by the project architect shows that more than 25 percent of such contracts have been completed. Turnover also includes the invoiced value of sales of cooking benches, sink units, drywall, wooden doorsets and aluminium window sets.

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 revenue are recognised on the following bases:

*(i) Contract revenue*

To the extent that the outcome of the contract can be estimated reliably, revenue from construction or demolition contracts is recognised using the percentage of completion method, measured by reference to the value of work certified to date compared to estimated total contract value after making due allowances for contingencies. Claims made to customers including variation orders are accounted for only to the extent of the amounts which can be reliably estimated and are likely to be collectible.

Profit from construction and demolition contracts is recognised only when the value of work certified by the project architect shows that more than 25 percent of such contracts have been completed, and when a profitable outcome can be prudently foreseen. When the outcome of the contract cannot be estimated reliably, revenue is recognised only to the extent of the value of work performed that is probable of recovery.

Income from and costs of maintenance contracts are recognised on the accrual basis.

*(ii)* *Supply of building materials*

Income from and costs of sales of cooking benches, sink units, drywall, wooden doorsets and aluminium window sets are recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

*(iii)* *Interest income*

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

*(iv)* *Rental income*

Rental income is recognised when the rental becomes due and receivable.

## 3. ANALYSIS OF TURNOVER AND OPERATING LOSS

The Group's turnover and loss before taxation are analysed as follows:

| | Turnover | | Contribution to loss before taxation | |
|---|---|---|---|---|
| | For the six months ended 30th September | | | |
| | **2001** | 2000 | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| *By principal activity:* | | | | |
| Construction, maintenance and demolition work | **94,515** | 353,546 | **6,071** | 6,033 |
| Supply of building products | **3,102** | 15,770 | **(2,575)** | (1,951) |
| Others | **646** | – | **167** | (1,464) |
| Business-to-business commerce activities | **–** | – | **(14,914)** | (7,215) |
| | **98,263** | 369,316 | **(11,251)** | (4,597) |
| *By geographical market:* | | | | |
| Hong Kong | **98,263** | 369,316 | **(2,361)** | (3,084) |
| Others | **–** | – | **(8,890)** | (1,513) |
| | **98,263** | 369,316 | **(11,251)** | (4,597) |

## 4. LOSS BEFORE TAXATION

Loss before taxation is determined after charging and crediting the following:

| | For the six months ended 30th September | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| After charging: | | |
| Depreciation expense | **3,462** | 6,203 |
| Interest expense | **5,396** | 10,581 |
| After crediting: | | |
| Interest income | **3,928** | 4,789 |
| Gain on disposal of fixed assets, net | **25,230** | 70 |

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## 5. TAXATION

The Company is exempted from taxation in Bermuda until 2016.

No provision for Hong Kong profits tax has been made for the companies comprising the Group because they had no assessable profits in Hong Kong during the period.

## 6. INTERIM DIVIDENDS

The directors do not propose any interim dividends in respect of the six months ended 30th September 2001 (2000 – Nil).

## 7. LOSS PER SHARE

The calculation of loss per share for the six months ended 30th September 2001 is based on the unaudited consolidated loss attributable to shareholders of approximately HK$11,234,000 (2000 – HK$4,462,000) and on the weighted average number of 2,400,001,640 (2000 – 1,634,974,678) shares in issue during the period.

Diluted loss per share is not presented because there were no potential dilutive securities in existence during the period.

## 8. INVESTMENT IN ASSOCIATED COMPANIES

Investment in associated companies comprised:

| | As at | |
|---|---|---|
| | **30th September 2001** | 31st March 2001 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | |
| Share of net assets | **17,133** | 23,857 |
| Advance to an associated company | **–** | 7,803 |
| | **17,133** | 31,660 |

## 9. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

Investment in a jointly controlled entity comprised:

| | As at | |
|---|---|---|
| | **30th September 2001** | 31st March 2001 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | |
| Advances to a jointly controlled entity | **2,958** | 3,122 |
| Share of net assets (liabilities) | **9** | (1,291) |
| | **2,967** | 1,831 |

The balance with the jointly controlled entity is unsecured, interest bearing at prime rate and is not repayable until the jointly controlled entity is financially capable of doing so.

## 10. INVESTMENT SECURITIES

Investment securities comprised:

| | As at 30th September 2001 HK$'000 (unaudited) | As at 31st March 2001 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **46,164** | 46,164 |

## 11. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

| | Amounts due from customers for contract works as at | | Amounts due to customers for contract work as at | |
|---|---|---|---|---|
| | **30th September 2001** ***HK$'000*** **(unaudited)** | 31st March 2001 *HK$'000* | **30th September 2001** ***HK$'000*** **(unaudited)** | 31st March 2001 *HK$'000* |
| Costs plus attributable profit less foreseeable losses | **2,125,386** | 2,108,337 | **177** | 243,167 |
| Less: progress billings received and receivable | **(1,993,927)** | (1,968,728) | **(218)** | (244,620) |
| | **131,459** | 139,609 | **(41)** | (1,453) |

## 12. PROGRESS BILLINGS AND ACCOUNTS RECEIVABLE

The Group allows an average credit period of 30 to 60 days to its trade customers.

The following is an aging analysis of progress billings and accounts receivable:

| | As at 30th September 2001 HK$'000 (unaudited) | As at 31st March 2001 HK$'000 |
|---|---|---|
| Accounts receivable | | |
| Current to 60 days | **11,821** | 6,101 |
| 61 to 90 days | **18** | 636 |
| Over 90 days | **23,212** | 18,475 |
| | **35,051** | 25,212 |
| Retentions receivable | **20,892** | 8,503 |
| | **55,943** | 33,715 |
| Less: provision for doubtful debts | **(13,501)** | (14,022) |
| | **42,442** | 19,693 |

## 13. Other Investment

Other investment comprised the following:

| | As at 30th September 2001 HK$'000 (unaudited) | As at 31st March 2001 HK$'000 |
|---|---|---|
| Listed equity securities in the Republic of China, at market value | **111** | 1,675 |
| Listed debt securities in the United States, at market value | **38,771** | – |
| | **38,882** | 1,675 |

## 14. ACCOUNTS PAYABLE

The following is an aging analysis of accounts payable:

| | As at 30th September 2001 HK$'000 (unaudited) | As at 31st March 2001 HK$'000 |
|---|---|---|
| Current to 30 days | **6,538** | 3,541 |
| 31 to 60 days | **397** | 869 |
| 61 to 90 days | **439** | 124 |
| Over 90 days | **7,079** | 7,230 |
| | **14,453** | 11,764 |
| Accruals | **48,667** | 58,466 |
| | **63,120** | 70,230 |

## 15. OTHER LOANS

Other loans of the Group mainly comprised balances due to former directors of the Company and parties related to them. The balances are unsecured, non-interest bearing and are not repayable within twelve months from the balance sheet dates.

## 16. SHARE CAPITAL

| | As at 30th September 2001 (unaudited) Number of shares '000 | As at 30th September 2001 (unaudited) Nominal value HK$'000 | As at 31st March 2001 Number of shares '000 | As at 31st March 2001 Nominal value HK$'000 |
|---|---|---|---|---|
| Authorised (Ordinary shares of HK$0.1 each) | **5,000,000** | **500,000** | 5,000,000 | 500,000 |
| Issued and fully paid or credited as fully paid (Ordinary shares of HK$0.1 each) | **2,400,002** | **240,000** | 2,400,002 | 240,000 |

## 17. RESERVES

Movements in reserves during the six months ended 30th September 2001 were as follows:

| | Share premium HK$'000 (unaudited) | Capital reserve HK$'000 (unaudited) | Revaluation reserve HK$'000 (unaudited) | Currency translation reserve HK$'000 (unaudited) | Accumulated deficit HK$'000 (unaudited) | Total HK$'000 (unaudited) |
|---|---|---|---|---|---|---|
| As at 1st April 2001 | 112,550 | 29,800 | 26,329 | (1,303) | (187,668) | (20,292) |
| Impairment of goodwill previously eliminated against accumulated deficit | – | – | – | – | 808 | 808 |
| Writeback of revaluation reserve on disposal of property | – | – | (14,988) | – | – | (14,988) |
| Loss for the period | – | – | – | – | (11,234) | (11,234) |
| Translation exchange difference | – | – | – | (1,196) | – | (1,196) |
| As at 30th September 2001 | 112,550 | 29,800 | 11,341 | (2,499) | (198,094) | (46,902) |



## 18. COMMITMENTS AND CONTINGENT LIABILITIES

As at 30th September 2001, the Group had the following significant commitments and contingent liabilities:

*(i)* *Commitments*

(a) Commitments under various contracts entered into in the normal course of business to complete construction contracts. These outstanding contracts had a total value (including work completed up to 30th September 2001) of approximately HK$1,738 million (31st March 2001 – HK$1,738 million).

(b) As at 30th September 2001, commitments for capital injections in respect of subsidiaries in the PRC amounting to approximately HK$56 million (31st March 2001 – HK$56 million). Those subsidiaries had been disposed by the Company in October 2001 (see Note 19).

*(ii)* *Contingent Liabilities*

(a) As at 30th September 2001, 33 (31st March 2001 – 38) employees had completed the required number of years of service under the Employment Ordinance to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the circumstances specified in the Employment Ordinance. If the termination of all these employees meet the circumstances specified in the Employment Ordinance, the Group's liability as at 30th September 2001 would be approximately HK$4,267,000 (31st March 2001 – HK$4,709,000). Provision of approximately HK$705,000 has been made in the financial statements for those employees who have served the Group for more than 10 years and are aged 65 or above.

(b) The Group is a party to litigation which arises in the normal course of its construction business usually from disputes with customers and suppliers. Management employs independent legal counsels to advise on the merits of cases brought by and against the Group and makes provision for potential liabilities resulting from such litigation, when necessary, based on its own judgement and the advice of legal counsels. Management believes that as at 30th September 2001, adequate provision has been made for claims that might result in a liability to the Group, and that the settlement of such claims will not have a material adverse effect on the financial position of the Group.

## 19. DISCONTINUING OPERATION

On 11th October 2001, the Company entered into an agreement to dispose the subsidiaries which are engaged in supplying of building products, investment holding and hotel operation (the "Disposed Subsidiaries") to a company owned by an associate of a director of certain of the Disposed Subsidiaries for a cash consideration of HK$25 million. The Disposed Subsidiaries belong to the "Supply of building products" and "Others" segments for the purpose of the Company's segmental reporting and their operations were mainly located in Hong Kong. The directors of the Company consider the above disposal will improve the financial performance and financial position of the Group. The disposal process was substantially completed in October 2001 and the estimated gain on disposal is approximately HK$38 million which has not been recognised in the Company's consolidated financial statements for the six months ended 30th September 2001.

Summarized unaudited financial information of the Disposed Subsidiaries as at 30th September 2001 is as follows:

| | **By principal activity** | | |
|---|---|---|---|
| | **Supply of building products** | **Others** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | 38,916 | 2,549 | 41,465 |
| Total liabilities | 37,806 | 57,455 | 95,261 |
| Turnover | 4,420 | – | 4,420 |
| – Sales to group companies | 1,319 | – | 1,319 |
| Cost of sales and operating expenses | 6,996 | – | 6,996 |
| Loss before taxation and net loss | 2,576 | – | 2,576 |
| Net cash outflow from operating activities | 4,936 | – | 4,936 |
| Net cash inflow from investing activities | 3,110 | – | 3,110 |
| Net cash outflow from financing activities | – | – | – |

### 20. STAFF REMUNERATION POLICY AND SHARE OPTION SCHEME

The Group employed a total of approximately 160 full time employees at 30th September 2001 in Hong Kong.

Employees are paid at salaries or wages comparable to market rates. The Group provides free medical insurance coverage for non-manual permanent staff and continues to investigate the possibility of introducing other benefits which would help retain current experienced staff and attract new employees so that the Group can maintain a capable workforce to meet present and future requirements.

There had been no charge in the Company's share option scheme from which disclosed in the Group's annual financial statements for the year ended 31st March 2001. No new share option was granted during the six months ended 30th September 2001.

## BUSINESS REVIEW AND PROSPECTS

For the six months ended 30th September 2001, the Group suffered a loss attributable to shareholders of approximately HK$11.2 million. Despite we had made a profit of approximately HK$25 million from disposing one of our properties, operating results are not satisfactory and approximately HK$21.3 million of the loss (before the HK$25 million gain on disposal of a property) came from our construction business as the construction market continued to remain tough.

Market environment of the Group's construction business has remained difficult. Competition in the local construction industry has intensified. As the property market is unlikely to have a significant rebound in the near term, together with Hong Kong Government's recent policy to freeze the sale of properties under the Home Ownership Scheme for 10 months, trading conditions for our construction business will continue to be weak.

On 11th October 2001, the Group announced the sale of its businesses related to supplies of building materials and investments in the People's Republic of China for cash proceeds of HK$25 million. The disposal of these assets will benefit the Group by: (i) streamlining business scope; (ii) improve cashflow position; (iii) realising value in its unprofitable businesses and using cash proceeds from the disposal for other more productive purposes; and (iv) allowing more time and resources for management to focus on businesses which have the potential to generate higher long-term value for shareholders. Following this same direction, for the benefit of the shareholders, the Directors will not preclude the opportunity, if so arises and available, to realise the unwanted businesses for cash and thereby to seek additional working capital to cope with the funding requirements which may be needed by our investments from time to time. No deal is concluded up to the date of this report.

On investments, the Group focuses exclusively in communication, media and financial services industries, and technologies that are transforming these industries. Specifically, the Group has made investments in a number of companies that provide business-to-business e-commerce solutions and transaction infrastructure. These technologies enable customers to conduct business electronically with multiple trading partners around the world and cover the complete range of purchasing process, from request for quotation to settlement, to integrated financial and logistics services.

HiOffice.net Pte. Ltd. ("HiOffice"), a company in our portfolio, has encountered operating difficulties. In July 2001 the board of HiOffice voted to close down the business in order to make more effective use of funds for the benefit of shareholders. The liquidation procedures are currently in process, and we estimate that our investment loss in HiOffice will not be significant to the Group as a whole.

Despite current market conditions, we are optimistic about new business opportunities in communication, media and financial services industries and are focusing on promising companies in their use of technologies to transform service or enhance productivities in those industries. Looking forward we intend to capitalise on such opportunities and will seek improvement to Group's profits and shareholder value through our investments in this direction.

## LIQUIDITY AND CAPITAL RESOURCES

The Group finances its operations by internally generated cashflows, bank borrowings and other loans mainly provided by certain former directors of the Company. Outstanding bank borrowings, including bank overdrafts, and other loans as at 30th September 2001 amounting to approximately HK$106.9 million and HK$170.0 million respectively. Interest charged on these bank borrowings are mainly prime-based. Management believes that cash generated from operations, existing banking facilities together with the cash on hand would be adequate to finance future operations of the construction business and other focusing businesses.



As at 30th September 2001, the Group had no significant foreign currency exposure.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 2001, save as disclosed below, none of the Directors or the chief executive of the Company has any interest in the equity or debt securities of the Company or any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) or which are required to be or have been notified to the Company and the Stock Exchange, pursuant to Section 28 of the SDI Ordinance (including interests which any such person is deemed or taken to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register kept by the Company referred to therein or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## (a) Shares of the Company

| Name | Type of Interest | Number of ordinary shares of the Company | Percentage shareholding interest in the Company |
|---|---|---|---|
| Dr. Jeffrey Len-Song KOO | Corporate* | 1,795,000,000 | 74.79% |
| Mr. Chin Yao LIN | Personal | 3,242,000 | 0.14% |

* These shares are owned by KG NextVision Corporation, a company incorporated in the British Virgin Islands. Dr. Jeffrey Len-Song KOO has a 100% beneficial interest in Mastiff International Limited, a company incorporated in the British Virgin Islands, which owns 100% issued shares in KG NextVision Corporation.

## (b) Options to subscribe for shares of the Company

Under the share option scheme of the Company adopted on 28th July 1992, the following Director holds options to subscribe for shares of the Company.

| Name of Director | Date of grant | Exercise price | Number of share options held as at 30th September 2001 | Exercise period |
|---|---|---|---|---|
| Jeffrey John Leon KOO, Jr. | 20th June 2000 | HK$1.17 | 30,000,000 | 20th December 2000 to 20th December 2003 |

## (c) Shares of associated corporation – BeXcom Greater China Co. Ltd.

| Name | Type of Interest | Number of ordinary shares of the associated corporation |
|---|---|---|
| Dr. Jeffrey Len-Song KOO | Personal | 2,091 |

Other than certain nominee shares in subsidiaries held by the directors in trust for the Company, no directors have any interests in the share capital of the Company's subsidiaries.