(27) RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK$ million	2000 HK$ million
Profit from ordinary activities before taxation	598.1	611.8
Share of results of jointly controlled entities	(30.8)	(35.2)
Interest income	(33.3)	(39.6)
Interest expense	132.5	55.6
Dividends from unlisted investments	(0.3)	-
Dividends from listed investments	(3.0)	-
Revaluation increase on investment property	(10.0)	-
Decrease (increase) in value of investments in securities	1.3	(1.8)
Amortisation of site establishment expenditure	10.6	10.9
Depreciation on property, plant and equipment	58.7	59.0
Loss on disposal of property, plant and equipment	0.3	1.1
Profit on disposal of listed investment	(0.2)	-
Decrease (increase) in properties under development for sale	1,656.1	(874.9)
Increase in properties held for sale	(191.8)	-
Pre-operating expenditure written off	-	4.5
Increase in amounts due from customers for contract work	(8.2)	(25.8)
(Decrease) increase in amounts due to customers for contract work	(56.1)	127.7
(Increase) decrease in debtors, deposits and prepayments	(2,603.4)	26.9
Increase in inventories	(0.2)	(3.3)
Increase in creditors and accruals	67.5	38.7
Decrease in bills payable and trust receipts	-	(3.5)
Decrease in amounts due to related companies	(0.2)	(1.4)
Increase in amounts due from associates	(0.1)	-
Increase in amounts due from jointly controlled entities	(69.9)	(25.0)
Decrease in amounts due to jointly controlled entities	(21.1)	(2.7)
Decrease (increase) in amounts due from related companies	0.2	(0.4)
Net cash outflow from operating activities	(503.3)	(77.4)

(28) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK$ million	Unsecured bank loan HK$ million	Secured bank loan HK$ million	Obligations under finance leases HK$ million	Minority interests HK$ million
At 1 April, 1999	769.9	-	498.8	1.5	17.8
Exercise of share options	14.0	-	-	-	-
Minority share of profit for the year	-	-	-	-	6.6
Decrease in pre-acquisition reserve	-	-	-	-	0.2
Repayment during the year	-	-	-	(1.5)	-
Bank loan raised	-	-	695.5	-	-
Decrease in minority interests	-	-	-	-	(1.2)
At 31 March, 2000	783.9	-	1,194.3	-	23.4
Exercise of share options	5.6	-	-	-	-
Minority share of profit for the year	-	-	-	-	9.1
Decrease in pre-acquisition reserve	-	-	-	-	0.3
Increase in minority interests	-	-	-	-	0.5
Dividends paid to minority shareholders	-	-	-	-	(5.3)
Bank loan raised	-	4.7	828.3	-	-
At 31 March, 2001	789.5	4.7	2,022.6	-	28.0

(29) PROVIDENT AND RETIREMENT FUND SCHEMES

The Group is a participating member in the Shui On Provident and Retirement Scheme which is principally a defined benefit scheme with a defined contribution element and registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme"). The assets of the ORSO Scheme are administered by the Trustees of the ORSO Scheme and are held separately from the assets of the Group. The ORSO Scheme is funded by monthly contributions from both employees and employers at rates ranging from 5% to 10% of the employees' basic salaries and additional contributions, if any, by the employers on the basis of actuarial valuations carried out at least once every three years. In accordance with the rules of the ORSO Scheme, employer contributions forfeited due to resignation of staff members prior to the full vesting in such contributions are kept in the ORSO Scheme and not repaid to the employer.

The latest actuarial valuation of the ORSO Scheme at 31 August, 1999 was carried out by Watson Wyatt Hong Kong Limited, an independent firm of actuaries and consultants, using the attained age method. The actuarial assumptions include investment yield on the assets, rate of salary escalation, withdrawal rates and mortality rates. The latest actuarial valuation showed that the assets of the ORSO Scheme had a funding level that exceeded the total past service liability at that date. However, due to the estimated decrease in the value of the ORSO Scheme assets following the Asian financial turmoil in 1998, the Group had made an additional contribution of HK$7.3 million (2000: HK$ 17.5 million) to the ORSO Scheme towards meeting the deficiency in the ORSO Scheme asset resulting therefrom.

A Mandatory Provident Fund Scheme (the "MPF Scheme") was set up under the Mandatory Provident Fund Ordinance in December 2000. The assets of the MPF Scheme are held separately from those of the funds under the control of an independent trustee. The Group has also obtained exemption for the ORSO Scheme, all existing members of which were offered the choice of staying in the ORSO Scheme or switching to the MPF Scheme , whereas all new employees joining the Group on or after 1 September, 2000 have to join the MPF Scheme. The MPF Scheme contains optional voluntary contribution features whereby employees and employers will contribute at a rate based on basic salaries in the same manner as that of the ORSO Scheme. In accordance with the rules of the MPF Scheme, employer voluntary contributions forfeited due to resignation of staff members prior to fully vesting in such contributions may be used to reduce the amount of future employer contributions.

The Group's total contribution to the ORSO Scheme and MPF Scheme charged to the income statement during the year ended 31 March, 2001 amounted to HK$31.1 million (2000: HK$38.4 million).

(30) LEASE COMMITMENTS

At the balance sheet date, the portion of the outstanding commitments under non-cancellable operating leases in respect of rented premises which are payable in the following year is as follows:

	The Group		The Company	
	2001 HK$ million	2000 HK$ million	2001 HK$ million	2000 HK$ million
Operating leases which expire:				
- within one year	19.0	13.9	3.4	-
- in the second to fifth years inclusive	14.8	19.0	-	3.4
- over five years	0.9	1.9	-	-
	34.7	34.8	3.4	3.4

(31) CAPITAL COMMITMENTS

At the balance sheet date, the Group's share of the capital commitments of its jointly controlled entities are as follows:

	2001 HK$ million	2000 HK$ million
Contracted but not provided for	6.5	1.9
Authorised but not contracted for	4.8	11.4

The Group and the Company had no significant capital commitments at the balance sheet date.

(32) PLEDGE OF ASSETS

At the balance sheet date, properties held for sale and sales proceeds of the PSPS project have been pledged as securities for a bank loan of HK$2,022.6 million (2000: HK$1,194.3 million), which was fully repaid on 2 May 2001.

(33) CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities not provided for in these financial statements as follows:

(a) performance bonds established amounting to approximately HK$171.1 million (2000: HK$159.4 million);
(b) guarantees in lieu of utility deposits amounting to approximately HK$0.8 million (2000: HK$1.7 million).

The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries and jointly controlled entities at 31 March, 2001 amounting to approximately HK$3,729.4 million and HK$161.1 million (2000: HK$3,793.0 million and HK$Nil) respectively.

(34) POST BALANCE SHEET EVENT

On 27 April, 2001, Hollyfield Holdings Limited ("Hollyfield"), a wholly-owned subsidiary of the Company, entered into an agreement ("Joint Venture Agreement") with Shanghai Zhong Hong (Group) Company Limited ("Shanghai Party") for the establishment of a joint venture company ("JV Company") in the PRC. JV Company will have a registered capital of Rmb467 million (approximately HK$436 million) which will be contributed as 99 per cent. by Hollyfield and 1 per cent. by Shanghai Party. The investment cost is Rmb1,400 million (approximately HK$1,308 million) being the estimated development cost for the first phase of the Project. It is expected that the excess of the investment cost over the registered capital will be largely financed by banking facilities and internal funds. The principal activities of JV Company will be the construction and development in phases of certain parcels of land ("Project") totalling approximately 300,000 square metres for residential and ancillary commercial uses in the Hong Kou District in Shanghai, PRC, currently known as "Rui Hong Xin Cheng" and, producing upon completion of the entire Project a total gross floor area of approximately 1.35 million square metres.

It is currently contemplated that the JV Company will develop, for the first phase of the Project, a parcel of land measuring approximately 52,000 square metres and producing, upon completion, a total gross floor area of approximately 237,000 square metres, of which approximately 160,000 square metres will be for residential units and the rest for commercial units and car parks. The land is located on top of a metro station which is expected to be opened in the year 2003.

Shanghai Ruichen Property Company Limited ("Connected Company") is a subsidiary of Shui On Company Limited, which is indirectly interested in approximately 64 per cent. of the Company, and is undertaking the development of site number 5 of Rui Hong Xin Cheng (not forming part of the Project). Pursuant to an agreement entered into between Hollyfield and the Connected Company on 2 May, 2001 (as supplemented by an agreement dated 22 May, 2001 between these parties) ("Relinquishment Agreement"), the Connected Company, which currently holds the development rights and title to the Project, has agreed to, amongst others:

(i) relinquish and surrender the development rights and title to the Project; and

(ii) use all reasonable endeavours to procure the relevant regulatory authorities in the PRC to grant in favour of JV Company the necessary development rights and title to the Project.

In consideration for the above, Hollyfield will procure JV Company to:

(i) pay Connected Company a sum of Rmb184.5 million (approximately HK$172.4 million) which has been calculated based on the costs of certain public infrastructure and site clearance works paid by the Connected Company in respect of the Project within 10 business days after the JV Company has received all the necessary new documents of title in favour of the JV Company; and

(34) POST BALANCE SHEET EVENT - continued

(ii) from time to time pay to Connected Company, in respect of each square metre of the residential units sold, a sum equal to 20 per cent. of the portion of achieved average selling price over and above Rmb7,500 per square metre ("Base Price") and, in respect of each square metre of the commercial units leased, a sum equal to 20 per cent. of the portion of achieved average rental over and above US$0.7 per square metre per day ("Base Rental"). In the event that the amount so calculated is equal to or less than zero, no amount shall be payable to Connected Company. In the event that if the aggregate of the site clearance cost and construction cost in respect of each phase of the Project exceeds the estimated cost of Rmb5,200 per square metre, then the Base Price and the Base Rental will also be adjusted according to the same percentage of increase.

Moreover, in the event that any commercial unit of any particular phase is sold together with a subsisting tenancy, the rental payable under such subsisting tenancy shall be compared with the Base Rental and in the event of there being any excess over the Base Rental, an independent financial adviser shall be appointed to prepare a valuation in order to apportion the sale proceeds of such commercial unit between the JV Company and the Connected Company so as to reflect the sharing of the excess rental income in the ratio of 80:20 between the JV Company and the Connected Company.

In the event that any commercial unit is sold, with no subsisting tenancy, an independent financial adviser shall be appointed to evaluate the potential rental of such commercial unit. If the rental as evaluated shall exceed the Base Rental, the independent financial adviser shall prepare a valuation to determine how the sale proceeds of such commercial unit shall be apportioned between the JV Company and the Connected Company in order to reflect the sharing of the excess rental income in the ratio of 80:20 between the JV Company and the Connected Company.

Under the Listing Rules, the Joint Venture Agreement constitutes a discloseable transaction, while the Relinquishment Agreement constitutes a connected transaction for the Company and is subject to the approval of the Independent Shareholders on a special general meeting held on 13 June, 2001. An Independent Board had been formed to consider the terms of the Relinquishment Agreement and to make the appropriate recommendation to the Independent Shareholders. An independent financial adviser was appointed to advise the Independent Board.

A circular containing details of the Joint Venture Agreement and the Relinquishment Agreement, a letter of recommendation from the Independent Board and a letter of advice to the Independent Board from the independent financial adviser as to whether the terms of the Relinquishment Agreement are fair and reasonable so far as the Independent Shareholders are concerned was despatched to Shareholders on 23 May, 2001.

An ordinary resolution proposed to approve the Relinquishment Agreement was unanimously passed at the Special General Meeting on 13 June, 2001, during which Shui On Company Limited and its associates (as defined in the Listing Rules) had abstained from voting.

(35) RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following significant transactions with its ultimate holding company Shui On Company Limited ("SOCL") and its subsidiaries and associates other than those of the Group ("SOCL Group"). These transactions were carried out on terms meant to reimburse costs and expenses incurred, on terms similar to those applicable to transactions with unrelated parties or as mutually agreed between the parties.

Nature of transactions	2001 HK$ million	2000 HK$ million
Income received from SOCL Group:		
Decoration work	-	5.4
Management and information system services	0.7	1.1
Balance as at 31 March		
Amounts due to SOCL Group	-	0.2
Amounts due from SOCL Group	0.2	0.4

(35) RELATED PARTY TRANSACTIONS - continued

(b) During the year, the Group had the following significant transactions with jointly controlled entities of the Group on terms meant to reimburse costs and expenses incurred, on terms similar to those applicable to transactions with unrelated parties or as mutually agreed between the parties.

Nature of transactions	2001 HK$ million	2000 HK$ million
Income received:		
Interest income	4.1	4.4
Management fee	2.1	2.1
Cost and expenses paid:		
Construction/subcontracting work	149.7	158.8
Supply of construction materials	153.4	224.1
Balance as at 31 March		
Amounts due to jointly controlled entities	40.1	61.2
Amounts due from jointly controlled entities	192.7	122.8
Interest receivable	1.3	1.3

(c) During the year, the Group received a contribution from a jointly controlled entity for the costs of rehabilitation of a project amounting to HK$8.3 million (2000: HK$8.3 million). The outstanding balance of this contribution receivable was HK$8.3 million (2000: HK$16.7 million) as at the balance sheet date.

(d) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of SOCL, to use the trademark, trade name “Shui On”, “瑞安” and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.

(e) At the balance sheet date, the Group had amounts due from associates amounting to HK$0.1 million (2000: Nil).

(f) During the year, the Group has paid rental deposits to SOCL group amounted to HK$0.1 million (2000: Nil).