

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim financial report for the period ended 30th September 2001 has been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of this interim financial statements are consistent with those used in the annual financial statements for the year ended 31st March 2001 except that the Group has changed certain of its accounting policies following its first adoption of the following new and revised SSAPs issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 14 (revised)	: Leases
SSAP 26	: Segment reporting
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 29	: Intangible assets
SSAP 30	: Business combinations
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies resulting from the adoption of these new policies are set out below:

(a) *SSAP 30: Business combinations*

The Group has adopted SSAP 30 which goodwill arising on acquisitions after 1st April 2001 is capitalised and amortised over its estimated useful life, whereas negative goodwill arising on acquisitions after 1st April 2001 is recognised as income. The Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves that occurred prior to 1st April 2001.

(b) *SSAP 31: Impairment of assets*

SSAP 31 requires company to assess whether there is any impairment of assets. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised for the excess of carrying value of the asset over its estimated recoverable amount.

2. SEGMENTAL INFORMATION

The Group is principally engaged in:

- (a) The construction business, as a main contractor, as well as contracting intelligent building engineering and electrical and mechanical engineering services, mainly in Hong Kong and elsewhere in the People's Republic of China ("PRC"); and
- (b) Property development and investment.

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area for the six months ended 30th September 2001 is as follows:

	For the six months ended 30th September			
	2001 Turnover (Unaudited) HK\$'000	2001 Contribution to profit from operating activities (Unaudited) HK\$'000	2000 Turnover (Unaudited) HK\$'000	2000 Contribution to profit from operating activities (Unaudited) HK\$'000
By principal activity:				
Construction contracting and related business	129,891	814	233,714	238
Property development and investment	50,841	5,464	100,390	5,487
Sales and installation of fitness, leisure and medical equipment and related business	-	-	37,294	3,131
	180,732	6,278	371,398	8,856
By geographical area:				
The PRC:				
Hong Kong	79,029	1,519	252,041	3,663
Elsewhere	101,703	4,759	119,357	5,193
	180,732	6,278	371,398	8,856

3. OTHER REVENUE

	For the six months ended 30th September	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Interest income	1,925	2,119
Goodwill arising from acquisition of subsidiaries	6,033	-
Net rental income	993	811
Others	6,480	1,920
	15,431	4,850

4. PROFIT BEFORE TAX

Profit before tax was determined after charging the following:

	For the six months ended 30th September	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	3,300	1,864
Depreciation	1,759	1,371
	<u>5,059</u>	<u>3,235</u>

5. TAX

Hong Kong profits tax has been provided at a rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30th September	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for tax:		
Hong Kong	52	562
Outside Hong Kong	135	157
	<u>187</u>	<u>719</u>
Associates	79	-
Tax charge for the period	<u>266</u>	<u>719</u>

No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September 2001 (30th September 2000: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$4,067,000 (2000: HK\$5,390,000) and the weighted average of 4,789,159,000 shares in issue during the period (2000: 4,833,360,000 shares).

The calculation of diluted earnings per share is based on the net profit attributable to the shareholders of HK\$4,067,000 (2000: HK\$5,390,000) used in the basic earnings per share calculation. The weighted average number of shares used in the calculation is 4,800,644,000 (2000: 4,995,142,000) shares, which includes the weighted average of 11,485,000 (2000: 161,782,000) shares assumed to have been issued at no

consideration on the deemed exercise of the options expiring on 22nd January 2004, 21st February 2004 and 28th February 2004. The options expiring on 22nd April 2003 and 2nd May 2003, together with the warrants that were outstanding during the period had an anti-dilutive effect on the basic earnings per share and so have not been included in the diluted earnings per share calculation.

8. ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

	30th September 2001			31st March 2001		
	Balance (Unaudited) HK\$'000	Provisions (Unaudited) HK\$'000	Net Balance (Unaudited) HK\$'000	Balance (Audited) HK\$'000	Provisions (Audited) HK\$'000	Net Balance (Audited) HK\$'000
Current to 90 days	54,575	(9)	54,566	30,858	-	30,858
91 - 180 days	637	(110)	527	1,049	-	1,049
181 - 360 days	2,119	-	2,119	444	-	444
Over 360 days	70,252	(50,801)	19,451	75,843	(56,031)	19,812
	<u>127,583</u>	<u>(50,920)</u>	<u>76,663</u>	<u>108,194</u>	<u>(56,031)</u>	<u>52,163</u>
Retention money receivable	30,194	(27,667)	2,527	33,375	(30,575)	2,800
Total	<u>157,777</u>	<u>(78,587)</u>	<u>79,190</u>	<u>141,569</u>	<u>(86,606)</u>	<u>54,963</u>

The Group allows an average credit period of 60 days to its trade customers. For retention receivables in respect of the construction work, the due dates are usually one year after completion of the construction work.

9. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Current to 90 days	9,631	21,793
91 - 180 days	748	12,272
181 - 360 days	1,142	3,215
Over 360 days	6,797	5,572
	<u>18,318</u>	<u>42,852</u>

10. CONVERTIBLE NOTES

The notes, bearing interest at a rate of 2% per annum, are convertible into new shares of KEL Holdings Limited, at a conversion price of HK\$0.10 per share (the "Conversion Price") at any time up to 1st September 2003, being the third anniversary of the date of the issue. The Conversion Price is subject to certain adjustments as defined in the note instrument.

11. SHARE CAPITAL

	Number of ordinary shares (Unaudited)	Amount (Unaudited) HK\$'000
Authorised:		
At 1st April 2000 and 30th September 2001	15,000,000,000	150,000
Issued and fully paid:		
At 1st April 2000	4,451,788,000	44,518
Issue of new shares	300,000,000	3,000
Arising on exercise of share options	40,000,000	400
Arising on exercise of warrants	59,920,500	599
Arising on redemption of shares	(54,460,000)	(545)
At 31st March 2001	4,797,248,500	47,972
Arising on exercise of share options	18,500,000	185
Arising on exercise of warrants	4,250	-
Arising on redemption of shares	(24,140,000)	(241)
At 30th September 2001	4,791,612,750	47,916

12. RESERVES

	Share premium account HK\$'000	Fixed assets revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April 2001	103,863	9,792	545	-	99,973	214,173
Arising on exercise of share options	525	-	-	-	-	525
Arising on repurchase of shares	(373)	-	241	-	(241)	(373)
Release upon disposal of an associate	-	-	-	320	1,035	1,355
Goodwill release upon deemed disposal of interest in a subsidiary	-	-	-	-	238	238
Goodwill release upon deemed disposal of interest in an associate	-	-	-	-	1,018	1,018
Exchange realignments:						
Associates	-	-	-	(144)	-	(144)
Net profit for the period	-	-	-	-	4,067	4,067
At 30th September 2001	104,015	9,792	786	176	106,090	220,859
Reserves retained by:						
Company and subsidiaries	104,015	9,792	786	1,290	91,736	207,619
Associates	-	-	-	(1,114)	14,354	13,240
	104,015	9,792	786	176	106,090	220,859

13. RELATED PARTY TRANSACTIONS

Listed below are the material related party transactions that occurred during the period:

	Notes	For the six months ended 30th September	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Subcontracting income earned from a minority shareholder of a subsidiary	(1)	1,533	68,290
Rental income earned from an associate	(2)	273	–
Management fee earned from associates	(3)	3,230	–

Notes:

- (1) The subcontracting income received from the minority shareholder of subsidiary was determined in accordance with the architect's certificate after deduction of a margin to cover expenses incurred by minority shareholders. In respect of this subcontracting income, all balance had been settled with the minority shareholder as at 30th September 2001 (30th September 2001: HK\$15,516,000 owed from the minority shareholder).
- (2) The rental income received was based on rates approximate to those of the market at that time.
- (3) The management fee received was determined by reference to costs incurred for services rendered to associates.

BUSINESS REVIEW

The Group's turnover for the period was HK\$180,732,000 which represented a decrease of 51% as compared to that of last period. The net profit attributable to shareholders amounted to approximately HK\$4,067,000 and decreased by 25% to that of last period. Basic earnings per share is approximately HK0.08 cent.

The Group's major business segment comprised of construction contracting, property development and investment. During this period, the Group already completed construction of residential building at 19-23 Chi Kiang Street, composite building at 49 Village Road, Happy Valley, residential building at 116 Pokfulam Road. The decrease in turnover in the current period was attributable to the Group's substantial completion of the term contract for Design and Construction of Fitting Out Works to Building from the Architectural Services Department of the Government of the HKSAR last year.

During this period, the Group successfully completed and disposed over 96% of 154 units in Block 1 to 6 of Phase II,