

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,

Asian Villas, Haikou, Hainan Province, with a total contract sums of over RMB50 million to compose a meaningful turnover and profit contribution during this period. The decrease in turnover in current period was due to the fact that the Group disposed four levels of Zhongda Square, Shanghai last year.

Last year, the Group disposed certain interests in Fitness Concept Limited ("Fitness Concept"), a former subsidiary of the Group whose principal activities are sales and installation of fitness equipment and related business. Since then, Fitness Concept has become an associate of the Group. As a result, no turnover of Fitness Concept is shared by the Group.

PROSPECTS

During the period under review, the Group has obtained significant achievements in expanding its market strata through the acquisition and alliance with strategic entities. Consequently, the strategic development has strengthened the competitiveness and operating capability of the Group in not distant future.

Construction business

The Group will uphold the on-going parallel development of its construction business in both the PRC and Hong Kong construction industries. With its proven track record and expertise in the main contracting business as well as alliance with strategic partners, in March 2001, the Group was granted List of Approved Contractors for Public Works under Group C (on probation) of the Building Category under Works Bureau of the Government of the HKSAR, which enables the Group to carry out public building construction work smoothly. After the balance sheet date, new projects such as main contractor for construction of a commercial complex (German Centre) in Shanghai, main contractor for renovation works in Sogo Department Store, Basement 2, Hong Kong were awarded. Since the date of this report, the Group has secured contracts on hand with a total contract sum of over HK\$500 million. The Directors believe that Beijing, PRC won the right to host the 2008 Olympic Games, will have a positive impact on the Group's construction business. Besides, the Group successfully acquired the controlling interest in KEL Holdings Limited ("KEL") in August last year. With the reactivation of all its 11 licences held under the List of Approved Suppliers of Materials and Specialist Contractors for Public Works under Works Bureau of The Government of the HKSAR, the Group could take an active part in the construction business development, together with KEL, to achieve a synergical effect.

Property development and investments

Retrospectively speaking, in July 2000, the Group acquired a land lot for high-class residential property development near the Botanic Garden in Shanghai. The land measures 35,235 sq. metres and has a plot ratio of 1.4. The site is developing into middle and high-class apartments with floor areas of approximately 50,000 sq. metres, this property is named as "Park View". The Directors believe that the price of the apartments developed in that area will be over RMB6,000 per sq. metre, and the aggregate sales revenue is expected to be over RMB300 million. Pre-sale of Block 1 and 2 of this site is expected to commence at the beginning of 2002, the Directors are confident that this project will have a meaningful contribution to the turnover and profit of the Group. As Shanghai is developing into a metropolis serving as an international financial, information and transportation center, this project will have great market potential and bright prospects by virtue of its unique Botanic Garden surroundings. In addition, Block 7 to 11, Phase II of Asian Villas, Haikou, Hainan Province is under construction and over 50% out of 194 units have been pre-sold. The Directors expect that the aggregate sales revenue stands at over RMB70 million.

To beef up the property investment base of the Group, the Group already acquired 9th and 10th floors of Shanghai Shartex Plaza during this period. Together with the renting out of all units in 24th, 27th-28th floors of Zhongda Square Shanghai, the Directors are convinced that the property investment will provide a stable recurring income to the Group.

The joining of the World Trade Organisation and commencement of Asia Pacific Economic Conference in Shanghai will have a positive impact to the PRC property market and property investments will continue to provide meaningful contribution to the Group's operating results in the coming years.

The development of intelligent buildings systems

The Group has favourably expanded its construction related business into the development of intelligent buildings systems which provides a turnkey solution from system design to maintenance services. During the period, the Group already formed alliances with intelligent buildings systems companies in Japan, Israel and Taiwan to enhance its development in intelligent buildings systems. Products are launched to market recently with favourable feedback and inquiry. The Directors believe that the alliances will provide a variety of solutions and related products to the intelligent buildings systems, and the development of the intelligent buildings systems is of very great marketing

potentiality which will become one of the principal operations of the Group.

Development of Fitness Centre

The first fitness centre with gross floor area over 4,000 sq. metres in Hua Hai Zhong Lu, Shanghai was opened in October 2000. This fitness centre has admitted over 3,500 members since its soft opening. With Beijing, PRC having won the right to host the 2008 Olympic Games, the Directors are in a position to believe that such an event will undoubtedly stimulate the public's enthusiasm in sports and thus the fitness equipment business will, optimally speaking, provide a favourable contribution to the Group accordingly.

LIQUIDITY AND CAPITAL RESOURCES

As at 30th September 2001, the Group had total assets of HK\$480,686,000 and current liabilities, long-term liabilities, shareholders' equity and minority interests of HK\$181,665,000, HK\$17,865,000, HK\$268,775,000 and HK\$12,381,000, respectively.

The Group continued to maintain a low gearing ratio, at 6.0% (31st March 2001: 3.6%). It was calculated based on the long-term borrowings of HK\$17,865,000 (31st March 2001: HK\$10,251,000) and long-term capital of HK\$299,021,000 (31st March 2001: HK\$287,459,000).

The Group's bank borrowings increased slightly to finance a property development project in Shanghai, PRC. Most bank borrowings are prime rate based and the Group expects a favourable effect on the downtrend of the interest rate. The bank borrowings and cash and bank balances were principally denominated in Hong Kong dollars and Renminbi. Hence, there is no significant exposure to foreign exchange rate fluctuations.

RISK OF CURRENCY FLUCTUATION

The Group's receivables and payables were denominated mainly in US dollar, Hong Kong dollar and Renminbi. Since Hong Kong dollar is pledged to US dollar, and Renminbi is relatively stable, we consider the exchange risk is not significant.

CHARGES ON GROUP ASSETS

The bank loans and the Group's banking facilities are secured by:

- (1) the Group's time deposits of HK\$27,458,000 (31st March 2001: HK\$32,590,000); and
- (2) certain land and buildings of the Group.

COMMITMENTS

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Capital commitments contracted for	<u>1,107</u>	<u>8,644</u>
Future minimum lease payments under non-cancellable operating leases in respect of land and buildings for the following period:		
Within one year	685	1,248
In the second to fifth years, inclusive	1,644	1,620
After five years	554	770
	<u>2,883</u>	<u>3,638</u>

CONTINGENT LIABILITIES**(a) Guarantees**

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Guarantees of banking facilities granted to:		
Associates	27,500	43,887
Others	3,713	–
	<u>31,213</u>	<u>43,887</u>

In respect of the guarantees granted, banking facilities in the amount of HK\$15,133,000 (31st March 2001: HK\$20,826,000) had been utilised as at 30th September 2001.

- (b) As at 30th September 2001, Kenworth Engineering Limited (“Kenworth”), a wholly-owned subsidiary of KEL, had received a claim of approximately HK\$341 million from a contract employer for the alleged breach of a subcontract, which alleged breach Kenworth has not admitted. Kenworth commenced legal proceedings against this contract employer for the outstanding contract sum in respect of the completed work and the losses it considers it incurred and to be due to it from the wrongful termination of the subcontract. The Scheme Administrator is awaiting the decision of the Court or,

in the event that such decision is subject to appeal or further appeal(s) by either party thereto, will await the ultimate outcome and final decision to be made by the relevant appellate body. In any event, the claim, if awarded to the contract employer, is still subject to the terms and conditions of the scheme of arrangement. The directors consider that, given the nature of the claim under dispute, it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. On the basis that the directors consider that Kenworth has valid defences against the claim and believe that it is not probable that any material loss will be suffered by Kenworth, no provision has been made in these financial statements.

EMPLOYEE SCHEMES

As at 30th September 2001, the Group had 135 employees, 14 of them were based in the PRC.

The remuneration policy and package of the Group's employees are reviewed and approved by the Directors. Apart from pension funds and double pay, discretionary bonus are linked to individual performance as recognition of and reward for value creation.

On 21st May 1997, the Company approved a share option scheme (the "Option Scheme") under which the Directors of the Company may, at their discretion, grant options to any executive director or employee of the Group at any time during the ten years from the date when the Option Scheme was approved. Details of movements in the number of share option during the period were as follows:

Date granted	Subscription price	Subscription period	At 1st April 2001	Granted during the period	Exercise during the period	At 30th September 2001
23rd October 2000	HK\$0.03840	23rd April 2001 – 22nd April 2003	40,000,000	-	(18,500,000)	21,500,000
3rd November 2000	HK\$0.04032	3rd May 2001 – 2nd May 2003	3,000,000	-	-	3,000,000
23rd July 2001	HK\$0.03088	23rd January 2002 – 22nd January 2004	-	110,000,000	-	110,000,000
22nd August 2001	HK\$0.02880	22nd February 2002 – 21st February 2004	-	35,000,000	-	35,000,000
29th August 2001	HK\$0.02864	29th February 2002 – 28th February 2004	-	130,000,000	-	130,000,000
			43,000,000	275,000,000	(18,500,000)	299,500,000