

12. Related party transactions

During the period, the Group had the following significant transactions with related parties:

	For the six months ended 30th September	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Rental paid to a fellow subsidiary	468	67

The above transaction arose in the ordinary course of the Group's business and was based on rates which approximate to those of the market.

BUSINESS REVIEW

The Group's turnover for the period was HK\$8,081,000 which represented an increase of 14.01% as compared to that of last period. The net loss attributable to shareholders amounted to approximately HK\$1,284,000. Loss per share was approximately HK0.18 cent.

During the period under review, in May 2001, the Group reactivated all the 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 Hong Kong Special Administrative Region (the "Licences"). With the completion of debt restructuring of the Group last year, all uncertainties of the Group faded away gradually. During this period, the Group concentrated on recovering accounts receivables in previous years and establishing a better relationship with subcontractors, suppliers and bankers.

The turnover for the period represented the total completion of supply, installation, testing and commissioning of one generator set in Chung Hom Kok (Building services (single trade)), Pillar Point Sewage Treatment project (Environmental engineering services) and general maintenance works. As the Group has

begun to start its normal operation in this period and the turnover mainly represents the above two projects and general maintenance work, accordingly, segmental information is, therefore, not discussed.

PROSPECTS

The Group has been in financial difficulty and undergone debt restructuring since the last two years when the Group's operation was significantly affected by most of the projects either terminated or innovated. It is pleased to note that the uncertainty already faded away gradually upon the completion of the debt restructuring of the Company and two of its subsidiaries on 10 August 2000. With the reactivation of all the Licences in May 2001, the Group is now well equipped and in full readiness to turn around its operation.

The Group is now actively submitting tenders for electrical and mechanical (E&M) engineering and maintenance projects in both private and public sectors. Subsequent to the balance sheet date, the Group successfully awarded a contract from EMSD for the Replacement of Electrical Equipment in Various Government Premises which indicates the confidence of the Government on the Group after the completion of debt restructuring. Since the date of this report, the Group has had contracts on hand with a total contract sum of over HK\$30 million.

More to note, on 11th October 2001, the Group proposed to enter into continuing connected transactions with Deson Development International Holdings Limited and its subsidiaries ("Deson") for the provision of electrical and mechanical engineering services by the Group to Deson and applied to the Stock Exchange of Hong Kong Limited for a three-year waiver to the effect that in each financial year the turnover from Deson shall not exceed the following amount:

	<i>HK\$</i>
For the financial year ending 31st March 2002	150 million
For the financial year ending 31st March 2003	200 million
For the financial year ending 31st March 2004	200 million

The above proposed continuing connected transactions were already approved by the shareholders of the Group on 22nd November 2001. The Group can now be more flexible to explore the E&M engineering business in the PRC construction market with the assistance of Deson which has extensive connections in the PRC construction industry. Apart from this, Deson is developing its business in the design, supply and installation of intelligent building engineering services systems which require a high level of technicality on the side of E&M engineering. The Group could take an active part in such a business development so as to achieve a synergical effect and explore as much business opportunity as can be.

Under such circumstances, the Directors will seek every opportunity to re-establish a high reputation and a stable status of the Group which it possessed in the E&M engineering industry before. With the Group's strong foundation and longstanding reestablished expertise in the E&M engineering business and the support by Deson, the Directors believe that the Group can turn around into a sound operation and improve its operating results in the shortest period of time.

LIQUIDITY AND CAPITAL RESOURCES

As at 30th September 2001, the Group had total assets of HK\$17,318,000 and current liabilities, long-term liabilities and shareholders' equity of HK\$6,776,000, HK\$9,675,000 and HK\$193,000, respectively. The Group maintained a healthy working capital during the period with net current assets of HK\$9,948,000 at 30th September 2001. The Group's gearing ratio at the period was 98.04%, which was calculated on long-term borrowings of HK\$9,675,000 and long-term capital of HK\$9,868,000.

The Group's borrowings represented Convertible Notes issued under Scheme and the Group did not have other borrowings at 30th September 2001. The Convertible Notes and cash balances were principally denominated in Hong Kong dollars. Hence, there is no significant exposure to foreign exchange rate fluctuations.

CHARGE ON GROUP ASSETS

On 4th September 1998, the Group executed a guarantee and debenture (the “Debenture”) over all of its assets and undertaking, subject to the existing security arrangements, in favour of the security trustee in return for a formal standstill arrangement amongst the participating bankers. Although the formal standstill arrangement lapsed during the year ended 31st March 1999, the bankers participating in the Debenture are still entitled to the benefit arising from the Debenture executed by the Group. Pursuant to the debt restructuring and share subscription agreement dated 26th April 2000, the Debenture will be released and discharged upon the settlement of the Group’s bank borrowings by the Scheme Administrator under the Schemes.

RISK OF CURRENCY FLUCTUATION

The Group’s receivables and payables were dominated mainly in Hong Kong dollars and Renminbi. Since Hong Kong dollars and Renminbi is relatively stable, we consider the exchange risk not significant.

COMMITMENTS

Future minimum lease payments under non-cancellable operating leases in respect of land and buildings for the following period:

	30th September 2001 (Unaudited) HK\$’000	31st March 2001 (Audited) HK\$’000
Within one year	<u>185</u>	<u>637</u>

CONTINGENT LIABILITIES

- (a) As at 30th September 2001, Kenworth Engineering Limited (“Kenworth”), a wholly-owned subsidiary of the Group, 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 (“Scheme”). 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.

- (b) On 20th December 2000, the Intermediate Peoples’ Court, Beijing made a judgement in relation to a contractual claim between Kenworth and an outside Hong Kong contract employer. According to the judgement, Kenworth has to pay an indemnity of HK\$13,100,000 to the contract employer. Kenworth has appealed against such judgement. On 21st November 2001, the Higher Civil Court Beijing made a judgement that Kenworth has to pay an indemnity of HK\$1,727,471.

In 2000, Kenworth underwent a Scheme. Foreign creditors, that is, creditors to whom debts are owed under contracts governed by the laws of jurisdictions other than Hong Kong, are also bound by the Scheme. Those foreign creditors who submit their claims under the Scheme will be bound by the terms of the Scheme. Those who do not submit their claims under the Scheme will in any case be unable to enforce any

foreign judgement in Hong Kong. The foreign creditors can only attempt to enforce the foreign judgement in other jurisdictions where the assets of Kenworth are situated. In light of legal advice received, the directors consider that the foreign judgement cannot be enforced in Hong Kong and that Kenworth has no material assets situated in jurisdictions other than Hong Kong, accordingly they consider it is not probable that any material loss will be suffered by Kenworth, and therefore no provision in respect thereof has been made in these financial statements.

EMPLOYEE SCHEMES

As at 30th September 2001, the Group had 51 employees, 2 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 and share options are linked to individual performance as recognition of and reward for value creation.

DIRECTORS' INTERESTS IN SHARES

As at 30th September 2001, the interests of the directors of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(A) Interests in shares of the Company

Name of Directors	Number of Shares held and nature of interests		
	Nature of interest	Number of Shares held	Percentage of the issued share capital
Tjia Boen Sien	Corporate ¹	400,000,000	55.6%
Wang Jing Ning	Corporate ¹	400,000,000	55.6%