

The board of directors (the “Directors”) of Deson Development International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2003, together with the comparative figures for the six months ended 30 September 2002, as follows: –

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2003

	Notes	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000 (restated)
TURNOVER	3	282,864	204,394
Other revenue and gains	3	5,986	4,734
Cost of construction contracts and direct expenses		(142,053)	(154,585)
Cost of property interests sold		(96,783)	(26,195)
Cost of inventories sold		(2,979)	–
Staff costs		(12,924)	(12,964)
Depreciation expense		(960)	(1,324)
Other operating expenses		(13,566)	(9,831)
PROFIT FROM OPERATING ACTIVITIES		19,585	4,229
Finance costs	4	(1,966)	(2,734)
Share of profits and losses of associates		(942)	1,525
PROFIT BEFORE TAX		16,677	3,020
Tax	5	(7,303)	(211)
PROFIT BEFORE MINORITY INTERESTS		9,374	2,809
Minority interests		717	1,325
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		10,091	4,134
EARNINGS PER SHARE	6		
Basic		HK0.21 cent	HK0.09 cent
Diluted		N/A	HK0.09 cent

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2003

	30 September 2003 (Unaudited) Notes <i>HK\$'000</i>	31 March 2003 (Audited) <i>HK\$'000</i> (restated)
NON-CURRENT ASSETS		
Fixed assets	45,456	47,162
Goodwill	10,292	–
Interests in associates	17,277	17,903
Long term investments	8,153	8,153
Deferred tax asset	2,425	1,959
	<u>83,603</u>	<u>75,177</u>
CURRENT ASSETS		
Properties held for sale	296,862	352,097
Gross amount due from contract customers	16,445	19,568
Inventories	1,360	996
Accounts receivable	7 125,192	94,633
Prepayments, deposits and other receivables	51,579	25,831
Pledged time deposits	39,228	27,856
Cash and cash equivalents	48,604	41,579
	<u>579,270</u>	<u>562,560</u>
CURRENT LIABILITIES		
Gross amount due to contract customers	61,874	47,773
Accounts payable	8 83,565	83,410
Other payables and accruals	103,810	74,153
Tax payable	15,410	6,024
Provision for scheme debts	1,047	1,047
Interest-bearing bank and other borrowings	9 91,222	138,375
Convertible notes	–	7,285
	<u>356,928</u>	<u>358,067</u>
NET CURRENT ASSETS	<u>222,342</u>	<u>204,493</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>305,945</u>	<u>279,670</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	(7,779)	(2,900)
Deferred tax liabilities	(918)	(1,081)
	<u>(8,697)</u>	<u>(3,981)</u>
MINORITY INTERESTS	<u>(17,870)</u>	<u>(10,889)</u>
	<u>279,378</u>	<u>264,800</u>
CAPITAL AND RESERVES		
Issued capital	10 47,916	47,916
Reserves	11 231,462	216,884
	<u>279,378</u>	<u>264,800</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2003

	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000 (restated)
Total equity at 1 April (as previously reported)	263,922	271,253
Adjustment on adoption of HKSSAP 12 (Revised)	878	(2,042)
As restated	264,800	269,211
Impairment of goodwill	5,887	–
Deficit on revaluation of land and buildings	(796)	–
Exchange realignments of subsidiaries	(570)	–
Exchange realignments of associates	(34)	–
Net gains not recognised in the profit and loss account	4,487	–
Net profit for the period attributable to shareholders	10,091	4,134
Total equity at 30 September	279,378	273,345

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2003*

	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES	73,516	(35,690)
CASH FLOWS FROM INVESTING ACTIVITIES	(6,516)	(167)
CASH FLOWS FROM FINANCING ACTIVITIES	(41,821)	14,371
INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS	25,179	(21,486)
Cash and cash equivalents at beginning of period	11,797	41,368
Effect of foreign exchange rate changes, net	(147)	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	36,829	19,882
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	48,604	36,642
Non-pledged time deposits with original maturity of less than three months when acquired	–	2,648
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	30,774	17,077
Bank overdrafts, secured	(42,549)	(36,485)
	36,829	19,882

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed financial statements for the period ended 30 September 2003 have been prepared in accordance with Statement of Standard Accounting Practice (“HKSSAP”) 25 “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2003, except for the adoption of HKSSAP 12 (Revised) “Income Taxes” and the new interpretations relating thereto which have been retrospectively adopted for the first time in the preparation of the current period’s condensed consolidated financial statements.

HKSSAP 12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

Due to adoption of HKSSAP 12 (Revised) in the current period, prior period adjustments were made to recognise the deferred tax assets and liabilities in relation to (i) the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences, which are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; (ii) the revaluation of the Group’s land and buildings; (iii) the fair value adjustments arising from the acquisition of subsidiaries; and (iv) tax losses arising in the prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

The effect of the adjustments on these condensed consolidated financial statements are summarised as follows:

	As at 1 April	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	Increase/(decrease)	
Balance sheet		
Deferred tax assets	1,959	1,312
Deferred tax liabilities	1,081	3,354
Retained earnings	1,550	918
Fixed asset revaluation reserve	(672)	(2,960)
	<u> </u>	<u> </u>
	For the six months ended	
	30 September 2002	
		<i>HK\$'000</i>
		Increase
Profit and loss account		
Deferred tax credit		302
Net profits attributable to shareholders		<u>302</u>

2. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(a) Business segments

	For the six months ended 30 September							
	Construction contracting		Property development and investment		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
								(restated)
Segment revenue:								
Sales to external customers	157,839	174,362	120,851	30,032	4,174	-	282,864	204,394
Other revenue	3,841	1,991	1,176	1,473	-	-	5,017	3,464
Total	161,680	176,353	122,027	31,505	4,174	-	287,881	207,858
Segment results	6,735	5,244	23,980	520	140	-	30,855	5,764
Interest income and dividend income							951	1,270
Unallocated expenses							(6,088)	(2,805)
Amortisation of goodwill							(5,887)	-
Gain on disposal of subsidiaries							18	-
Impairment of goodwill							(264)	-
Profit from operating activities							19,585	4,229
Finance costs							(1,966)	(2,734)
Share of profits and losses of associates	451	1,525	-	-	(1,393)	-	(942)	1,525
Profit before tax							16,677	3,020
Tax							(7,303)	(211)
Profit before minority interests							9,374	2,809
Minority interests							717	1,325
Net profit from ordinary activities attributable to shareholders							10,091	4,134

(b) Geographical segments

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2003	2002	2003	2002	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	<u>80,696</u>	<u>79,209</u>	<u>202,168</u>	<u>125,185</u>	<u>282,864</u>	<u>204,394</u>

3. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the aggregate of gross revenue earned from construction work and the net amount of maintenance work invoiced, together with income from property development and investment.

An analysis of turnover, other revenue and gains is as follows:

	For the six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover		
Construction contracting and related businesses	157,839	174,362
Income from property development and investment	120,851	30,032
Others	4,174	—
	<u>282,864</u>	<u>204,394</u>
Other revenue and gains		
Interest income	875	1,270
Gross rental income	1,697	1,379
Management fees on construction projects	541	—
Management fee received from an associate	223	—
Dividend income from long term investments	76	—
Others	2,574	2,085
	<u>5,986</u>	<u>4,734</u>

4. FINANCE COSTS

	For the six months ended 30 September	
	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	2,781	3,545
Interest expense on bank loans not wholly repayable within five years	37	–
Interest on convertible notes	33	80
	<u>2,851</u>	<u>3,625</u>
Total finance costs	2,851	3,625
Interest capitalised	(885)	(891)
	<u>1,966</u>	<u>2,734</u>

5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Tax on assessable profits of subsidiaries and associates of the Group in PRC and overseas have been calculated at the rate of tax applicable to those subsidiaries and associates based on existing legislation, interpretations and practise in respect thereof.

	For the six months ended 30 September	
	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (restated)
Current tax:		
Hong Kong	928	–
Elsewhere	6,716	195
	<u>7,644</u>	<u>195</u>
Deferred tax, net:	(480)	(302)
	<u>7,164</u>	<u>(107)</u>
Share of tax attributable to associates	139	318
	<u>7,303</u>	<u>211</u>

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$10,091,000 (2002: HK\$4,134,000 (restated)) and the 4,791,613,000 (2002: 4,791,613,000) shares in issue during the period.

Diluted earnings per share for the period ended 30 September 2003 has not been disclosed, as the warrants and options outstanding during the period had an anti-dilutive effect on the basic earnings per share for the period.

The calculation of diluted earnings per share for the period ended 30 September 2002 is based on the net profit attributable to shareholders of HK\$4,134,000 (restated) used in the basic earnings per share calculation. The weighted average number of shares used in the calculation is 4,802,892,000 shares, which includes the weighted average of 11,279,000 shares assumed to have been issued at no consideration on the deemed exercise of the share options expiring on 21 February 2004 and 28 February 2004. The deemed exercise of full conversion right of the convertible notes in KEL Holdings Limited, a listed subsidiary of the Company, the warrants that were outstanding during the period, together with the options expiring on 22 April 2003, 2 May 2003 and 22 January 2004, had an anti-dilutive effect on the basic earnings per share and so has not been included in the diluted earnings per share calculation.

7. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable is as follows:

	30 September 2003			31 March 2003		
	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 – 90 days	70,574	-	70,574	63,522	-	63,522
91 – 180 days	24,596	-	24,596	13,432	(75)	13,357
181 – 360 days	13,933	(20)	13,913	4,954	(6)	4,948
Over 360 days	54,110	(40,615)	13,495	51,690	(40,437)	11,253
	<u>163,213</u>	<u>(40,635)</u>	<u>122,578</u>	<u>133,598</u>	<u>(40,518)</u>	<u>93,080</u>
Retention money receivables	30,622	(28,008)	2,614	30,957	(29,404)	1,553
Total	<u>193,835</u>	<u>(68,643)</u>	<u>125,192</u>	<u>164,555</u>	<u>(69,922)</u>	<u>94,633</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 60 days. For retention money receivables in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

8. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Current – 90 days	77,516	79,619
91 – 180 days	565	841
181 – 360 days	2,607	388
Over 360 days	2,877	2,562
	<u>83,565</u>	<u>83,410</u>

9. CONVERTIBLE NOTES

	2003 (Unaudited) HK\$'000
At 1 April	7,285
Arising on exercise of convertible notes	(29)
Repurchase during the period	<u>(7,256)</u>
At 30 September	<u>–</u>

The convertible notes (“Notes”) bear interest at a rate of 2% per annum and were convertible into new shares of KEL Holdings Limited (“KEL”), a listed subsidiary of the Company, at a conversion price of HK\$0.10 per share at any time up to 1 September 2003, being the third anniversary of the date of the issue. The outstanding Notes were fully repurchased at their principal amount plus accrued interest on 1 September 2003.

10. SHARE CAPITAL

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.01 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:		
4,791,612,750 ordinary shares of HK\$0.01 each	<u>47,916</u>	<u>47,916</u>

11. RESERVES

	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Fixed asset revaluation reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2003 (as previously reported)	104,015	15,262	7,740	5,753	786	(33)	82,483	216,006
Adjustment on adoption of HKSSAP 12 (Revised)	-	-	(672)	-	-	-	1,550	878
As restated	104,015	15,262	7,068	5,753	786	(33)	84,033	216,884
Deficit on revaluation of land and buildings	-	-	(796)	-	-	-	-	(796)
Impairment of goodwill	-	-	-	-	-	-	5,887	5,887
Exchange realignments								
- subsidiaries	-	-	-	-	-	(570)	-	(570)
- associates	-	-	-	-	-	(34)	-	(34)
Net profit for the period	-	-	-	-	-	-	10,091	10,091
At 30 September 2003	104,015	15,262	6,272	5,753	786	(637)	100,011	231,462
Reserves retained by:								
Company and subsidiaries	104,015	15,262	6,272	5,753	786	368	85,510	217,966
Associates	-	-	-	-	-	(1,005)	14,501	13,496
	104,015	15,262	6,272	5,753	786	(637)	100,011	231,462

12. CONNECTED TRANSACTIONS

On 6 March 2003, the Company and KEL entered into a provisional sale and purchase agreement, pursuant to which the Group would dispose to KEL (i) entire issued share capital of Billion Treasure Holdings Limited, a wholly-owned subsidiary of the Group; and (ii) its shareholder's loan of HK\$40,236,000 (collectively the "Disposals"), for an aggregate consideration of HK\$46,000,000 according to the agreement. The consideration was satisfied by the issuance of 657,142,857 ordinary shares of KEL of HK\$0.07 each, after the capital reorganisation exercise undertaken by KEL on 13 May 2003.

As at the agreement date on 6 March 2003, KEL was a connected person of the Company by virtue of the Company being its controlling shareholder. Accordingly, the transaction constituted a disclosable and connected transaction for the Group under the Listing Rules.

The Disposals were approved in a special general meeting of the Company's shareholders on 12 May 2003 and were completed on 14 May 2003. Immediately after the completion of the Disposals, the Group had a 74.81% equity interest in KEL.

13. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed in note 12 above, the Group had the following material transactions with related parties during the period:

	Notes	For the six months ended 30 September	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Management fees received from associates	(1)	493	408
Interest incomes from an associate	(2)	200	233
Rental income from an associate	(3)	<u>447</u>	<u>273</u>

Notes:

- (1) The management fees were charged by reference to costs incurred for services provided by the Group.
- (2) The interest income relates to advances to the associate, which bears interest at prevailing market rates.
- (3) The rental income was calculated by reference to open market rentals.

14. COMPARATIVE AMOUNTS

As explained in note 1 to this financial statement, due to the adoption of the revised HKSSAP 12, the presentation of certain items and balances in this financial statement have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2003 (2002: Nil).

BUSINESS REVIEW

The Group's turnover for the period reached HK\$282,864,000 which represents an increase of 38.39% as compared with the corresponding period of last year. The net profit attributable to shareholders amounted to approximately HK\$10,091,000 and increased by 144.10% to that of last period. Earnings per share is approximately HK0.21 cent for the current period.

The Group's major business segment comprises construction contracting, property development and investment. During this period, the Group already completed projects such as main contractor for construction of a 6 storeys commercial building including foundation, E&M & fitting out works in 12-14 Pak Sha Road, Causeway Bay, Hong Kong and main contractor for all construction works including structure, fitting out and E&M works of Gateway Plaza Phase III, Shanghai.

More to note, during this period, the Group sold certain units in Phase II and Phase III, Asian Villas, Haikou, Hainan Province and certain units in Parkview Garden, Shanghai, which contributed a meaningful turnover and profit to the Group.

PROSPECTS

Construction business

The Group will uphold an on-going parallel development of its construction business in both the People's Republic of China ("PRC") and Hong Kong. With its proven track records and adequate expertise in the main contracting business, the Group is now included in the List of Approved Contractors for Public Works under Group C (on probation) of the Building Category under Works Bureau of the Government of the Hong Kong Special Administrative Region (the "HKSAR"). Together with the 11 licenses held under the List of Approved Contractors for Public Works under Works Bureau of the Government of the HKSAR by KEL Holdings Limited ("KEL") and its subsidiaries ("KEL Group"), the Group is in a position to take an active part in the construction business development, alongside with the KEL Group, to achieve a synergistic effect.

It is pleasing to note that new projects such as being appointed main contractor for construction of a 7-storey secondary school at Nam Fung Road, Aberdeen, Hong Kong and installation of Trunk Sewers and Effluent Export Pipeline in Ngong Ping Sewage Treatment Plant, Lantau Island, New Territories. As at the date of this report, the Group has contracts on hand with a total contractual sum of over HK\$750 million. The Directors fully believe that the positive signs that the Hong Kong economy is gradually improving and that the confidence is built up in the Government of the HKSAR will have a double-functioning positive impact on the Group's construction business in the future.

Property development and investments

The development of the high-class residential property development project, Parkview, near the Botanical Gardens in Shanghai with a gross floor areas of approximately 50,000 sq. metres was completed. Certain units of the Parkview project were sold at a total contractual sum of over RMB238 million. As Shanghai is now vigorously developing into a metropolis serving as an international financial, information and transportation center, this project has great market potential and bright prospects by virtue of its unique Botanical Gardens surroundings. In addition, Southern Area of Asian Villas, Haikou, Hainan Province is at the design stage, and will be developed into a residential and commercial complex. This project is expected to be completed by the end of 2005. The Directors are confident that these two projects will have a significant contribution to the turnover and profit of the Group in these few years.

As all units in 24, 27 and 28 floors of Zhong Da Square, Shanghai, PRC has been rented out, the Directors are convinced that the property investment segment will provide a stable recurring income to the Group.

Noteworthy is the fact that the Directors believe the opening of the Universal Studios in 2006 and the hosting of the World Expo in 2010 which will have a positive impact on the PRC property market and the property development and investment segment will continue to provide a sizable contribution to the Group's operating results in the coming years.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2003, the Group had total assets of HK\$662,873,000 and current liabilities, long term liabilities, shareholders' equity and minority interests of HK\$356,928,000, HK\$8,697,000, HK\$279,378,000 and HK\$17,870,000, respectively.

The Group continued to maintain a low gearing ratio, at 2.84% (31 March 2003: 1.42% (restated)). This was calculated based on the long term borrowings of HK\$8,697,000 (31 March 2003: HK\$3,981,000 (restated)) and long term capital of HK\$305,945,000 (31 March 2003: HK\$279,670,000 (restated)).

Most bank borrowings are Hong Kong prime rate based and the Group expects a favourable effect on the low interest rate environment. 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.

CAPITAL STRUCTURE

The Group's long-term capital mainly comprised shareholders' equity which is confirmed with the low gearing ratio as discussed in the section "Liquidity and capital resources" above.

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 linked to US dollar, and Renminbi is relatively stable, the Directors consider the exchange risk is not significant.

CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Guarantees of banking facilities granted to: Associates	<u>31,300</u>	<u>31,300</u>

- (b) In October 2000, Kenworth Engineering Limited ("Kenworth"), a 74.8% owned subsidiary of the Group, received a claim of approximately HK\$341 million from a main contractor of a construction project for the alleged breach of a subcontract which Kenworth has not admitted. The claim amount was revised to HK\$141 million in 2002. A counterclaim was submitted by Kenworth against this main contractor for the outstanding contract sum in respect of the completed work and the loss due to the wrongful termination of the subcontract. Under the provisions of the subcontract, the disputed claim is subject to arbitration proceedings between Kenworth and the main contractor. The arbitration application was lodged before the commencement of three schemes of arrangement involving KEL, a listed subsidiary of the Company, and its two subsidiaries, Kenworth and Kenworth Group Limited, which were set up under Section 166 of the Hong Kong Companies Ordinance (the "Schemes"), the process commenced in August 2002 upon the appointment of the arbitrator. Both Kenworth and the main contractor are in the process of submitting information to the arbitrator for assessment. The Scheme administrator is required to await the arbitrator's decision or, in the event that such decision is subject to appeal or further appeal(s) by either party thereto, to await the ultimate outcome and final decision to be made by the relevant appellate body. In any event, the claim, if awarded in favour of the main contractor, is still subject to the terms and conditions of the Schemes.

In relation to the same construction project detailed above, in October 2000 Kenworth also received a claim of approximately HK\$353 million from the contract employer in respect of damages for the alleged breach of the same subcontract. The claim amount was revised to HK\$237 million in 2002. The Scheme administrator is in the process of examining the grounds for claim and the outcome of the assessment cannot be determined at this stage.

Pursuant to an agreement dated 18 October 2000 entered into between Kenworth and KEL, KEL agreed to discharge the liabilities of Kenworth under the Schemes by the allotment of certain redeemable cumulative preference shares by Kenworth.

KEL Group has appointed an independent chartered surveyor to estimate its potential exposure under the above two claims. According to the report of the surveyor, the maximum exposure of the above claims amounted to HK\$70 million. The Directors consider that KEL Group has valid defences against the claims and based on existing evidence believe that it is not probable that any material loss will be suffered by the KEL Group. In addition, as the arbitration proceedings are in a preliminary stage, it is not currently possible to estimate the eventual outcome of the claims but the Directors currently consider that no provision needs to be made in these financial statements.

OPERATING LEASE ARRANGEMENTS

Certain office properties leased by the Group are under operating lease arrangements, with leases negotiated for terms ranging from one to nine years.

At 30 September 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Within one year	833	875
In the second to fifth years, inclusive	2,484	2,976
After five years	—	340
	<u>3,317</u>	<u>4,191</u>

COMMITMENTS

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Capital commitments contracted for	<u> —</u>	<u> 1,413</u>

CHARGES ON GROUP ASSETS

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

- (i) certain of the Group's completed properties held for sale situated in the PRC, which had an aggregate carrying value at 30 September 2003 of HK\$159,913,000 (31 March 2003: HK\$121,861,000);
- (ii) certain of the Group's properties under development situated in the PRC, which had an aggregate carrying value at 30 September 2003 of HK\$5,950,000 (31 March 2003: HK\$47,535,000);
- (iii) certain of the Group's land and buildings situated in Hong Kong, which had an aggregate net book value at 30 September 2003 of approximately HK\$32,831,000 (31 March 2003: HK\$34,200,000); and
- (iv) the pledge of certain of the Group's time deposits amounting to HK\$39,228,000 (31 March 2003: HK\$27,856,000).

The Group's other loan is secured by the shares of a subsidiary, which held properties under development for sale with an aggregate carrying value at 30 September 2003 of approximately HK\$63,789,000 (31 March 2003: HK\$61,076,000), and bears interest at 4% per annum and will be fully settled by 31 December 2003.

EMPLOYEE SCHEMES

As at 30 September 2003, the Group had 153 employees, 12 of whom 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, discretionary bonus and share options are linked to individual performance as recognition of and reward for value creation.

On 14 August 2002, the share option scheme of the Company adopted on 21 May 1997 ceased to operate and a new share option scheme (the "Deson Scheme") was adopted on the same date to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. The options granted under the old scheme will remain in force and effect.

The Company operates the Deson Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Deson Scheme include the Company's directors, including independent non-executive directors and other employees of the Group. The Deson Scheme became effective on 14 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The share options expiring on 22 April 2003 and 2 May 2003 lapsed during the period, and except for that, no share options were granted, exercised, cancelled or lapsed under the old scheme or the Deson Scheme during the period.

The following share options were outstanding under the old scheme during the period:

Name or category of participant	Number of share options outstanding			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 April 2003	Lapsed during the period	At 30 September 2003			
Directors						
Wang Ke Duan	2,000,000	(2,000,000)	-	23 Oct 00	23 Apr 01 to 22 Apr 03	0.0384
	3,000,000	-	3,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	<u>5,000,000</u>	<u>(2,000,000)</u>	<u>3,000,000</u>			
Tjia Boen Sien	26,000,000	-	26,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	35,000,000	-	35,000,000	29 Aug 01	28 Feb 02 to 28 Feb 04	0.02864
	<u>61,000,000</u>	<u>-</u>	<u>61,000,000</u>			
Wang Jing Ning	3,000,000	(3,000,000)	-	23 Oct 00	23 Apr 01 to 22 Apr 03	0.0384
	5,000,000	-	5,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	<u>8,000,000</u>	<u>(3,000,000)</u>	<u>5,000,000</u>			
Keung Kwok Cheung	5,000,000	-	5,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
Kong Kwok Fai	5,000,000	(5,000,000)	-	23 Oct 00	23 Apr 01 to 22 Apr 03	0.0384
	4,000,000	-	4,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	<u>9,000,000</u>	<u>(5,000,000)</u>	<u>4,000,000</u>			
Sub-total	<u>88,000,000</u>	<u>(10,000,000)</u>	<u>78,000,000</u>			
Other employees						
In aggregate	11,500,000	(11,500,000)	-	23 Oct 00	23 Apr 01 to 22 Apr 03	0.0384
	3,000,000	(3,000,000)	-	3 Nov 00	3 May 01 to 2 May 03	0.04032
	67,000,000	-	67,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	35,000,000	-	35,000,000	22 Aug 01	22 Feb 02 to 21 Feb 04	0.02880
	95,000,000	-	95,000,000	29 Aug 01	28 Feb 02 to 28 Feb 04	0.02864
	<u>211,500,000</u>	<u>(14,500,000)</u>	<u>197,000,000</u>			
<u>299,500,000</u>	<u>(24,500,000)</u>	<u>275,000,000</u>				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Saved as disclosed below, at 30 September 2003, none of the Directors had any interest or short position in the securities, underlying shares or debentures of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) which would be required (a) to be disclosed in accordance with the Takeovers Code; or (b) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they would be deemed or taken to have under Sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules; or (c) pursuant to Section 352 of the SFO to be entered in the register of interests:

Name of director	Nature of interest	Number of shares held	Number of warrants held
Tjia Boen Sien	Corporate (Note)	1,968,750,000	393,750,000
	Personal	215,230,000	24,894,000
Wang Jing Ning	Corporate (Note)	1,968,750,000	393,750,000
	Personal	15,330,000	3,066,000
Wang Ke Duan	Personal	5,600,000	1,120,000
Keung Kwok Cheung	Personal	7,000,000	1,400,000
Kong Kwok Fai	Personal	5,000,000	1,000,000
Siu Man Po	Personal	1,500,000	300,000

Note: Sparta Assets Limited, a company incorporated in the British Virgin Islands, was beneficially interested in 1,968,750,000 shares of the Company. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 90% and 10% of the issued share capital of Sparta Assets Limited, respectively.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors interests and short positions in shares and underlying shares" and "Employee schemes" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any other person who, at 30 September 2003, had an interest or short position in the securities or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares	Approximate % of the issued Shares capital
Sparta Assets Limited	1,968,750,000	41.09
Okabe Co. Ltd	281,250,000	5.87

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the period.

POST BALANCE SHEET EVENT

On 10 September 2003, the Company announced that an offer would be made by Ricofull Securities Limited and Goldbond Capital (Asia) Limited (formerly Asia Investment Capital Limited) on behalf of the Company to repurchase up to 479,161,275 Shares (representing approximately 10% of the total issued capital of the Company) at the offer price of HK\$0.04 per share, subject to the fulfillment of the conditions as stated in the document issued by the Company on 20 October 2003. On 6 November 2003, all the conditions were fulfilled, and the offer became unconditional.

On 24 November 2003, being the date the offer was closed, 479,161,254 shares were successfully repurchased at the offer price of HK\$0.04 per share. The total consideration paid by the Company under the offer is approximately HK\$19,166,000.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 September 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules of the Stock Exchange, for any part of the accounting period covered by the interim report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's bye-laws.

By Order of the Board

Tjia Boen Sien

Managing Director and Deputy Chairman

Hong Kong, 29 December 2003.