FINANCIAL REVIEW AND ANALYSIS

Results

Owing to its financial problems and the slow progress of the projects, the Group is facing a rather negative outlook. Results from operations have been changed from a profit of $139.8 million last period to a loss of $126.5 million this period and is due mainly to a loss arising from ongoing construction projects of $93.3 million as against last period's profit of $61.4 million. The Group consequently incurred a significant amount of losses during the first half of the year. Loss attributable to shareholders for the six months ended 30th June, 2001 was $290,400,000, compared to loss attributable to shareholders of $72,900,000 for the corresponding period of the previous year. Loss per share increased to 57.2 cents from 14.4 cents for the corresponding period of the previous year. The Directors did not recommend the payment of any interim dividends.

Since November of the previous year, the Group has been suffering from severe liquidity problems and failed to repay its loans when they were due. At the end of November of the previous year, the Group appointed KPMG Financial Advisory Services as financial adviser for its debt restructuring scheme. It will take a long time before debt restructuring is completed. The Group will use its best endeavours to increase its revenue and reduce its expenditure over the coming years and also speed up the disposal of its assets in the PRC in order to repay its debts and carry out its business operation. We are pleased to inform you that there was a substantial progress on the disposal of the Yangpu power plant. The Group agreed to sell the Yangpu power plant to a third party for a consideration of $1 billion. The Company's associate, Yangpu Power (Hainan) Co. Ltd, has received deposits approximately $555 million in aggregate from the purchaser in the first half of the year. The Group is confident that the balance of the consideration would be received very soon.

The Group also made an encouraging progress towards debt restructuring. During May of 2001, the Company has signed a "Buy-out, Repayment and Release Deed" with a Group of banks whose lending to the Company were secured by the Company's construction contracts. The Release Deed enabled the Company to have direct access to progress monies received from all construction contracts. In June, the Company entered into a standstill letter with its creditor banks in Hong Kong and duly established a formal standstill arrangement to grant a grace period (up to 15th January, 2002) for the Company to negotiate and agree with the participating banks on a financial restructure plan which will set out terms of repayment and interest rates for the loans under restructure. The Company has also obtained the consent of the holders of the FRNs (due for redemption on 11th December, 2000 and issued by Hong Kong Construction (Capital) Ltd, a wholly-owned subsidiary of the Company) who have also agreed to standstill the payment obligations of the Group according to the above standstill arrangement.

Liquidity and financial resources

As at 30th June, 2001, the Group's borrowings comprised Hong Kong and PRC bank loans of $2.05 billion and the FRNs of US$37 million. As the Group and the Company were in default of all these borrowings, these amounts became due immediately and were classified as current liabilities.

All these borrowings are interest bearing with interest rates fixed at market rates plus margin at various intervals of time from one month to one year after the previous fixing.

As at 30th June, 2001, the Group's total borrowings were denominated in HK$, US$, RMB and Japanese Yen which were 73.8%, 14.0%, 8.0% and 4.2% of the total borrowings respectively. The Group had pledged deposits of $136.6 million and cash and cash equivalents of HK$125.2 million at the period end date. The Group has not used financial instruments for currency hedging purposes.

In July 2001, 100,000,000 new ordinary shares were allotted which resulted in additional net proceeds of approximately $108 million available to the Group.

In addition, the balance of the sale proceeds of approximately $445 million from the disposal of the Yangpu power plant will be received in due course resulting in substantial external funding to the Group.

Details of charges on group assets

As at the period end date, the Group had the following assets charged against bank borrowings:

	Value at 30th June, 2001 *$Million*	**Contract sum** *$Million*
Cash deposits	120.0	–
Commercial floors in Hong Kong	96.3	–
Commercial floors in Shenzhen	234.0	–
Listed shares in Hong Kong	11.7	–
Receivables of construction contracts in Hong Kong	–	3,013.8
Total value	462.0	3,013.8
Secured bank loans	404.3#	136.5

In addition to the above pledged assets, the Group's 20% interest in an associate, Hong Kong Construction (Investment) Ltd, and a floor of shopping arcade in Shenzhen held by the Group's 40% associate, Karbony Investment Ltd, were pledged as securities.

Gearing ratio

The Borrowings to Equity Ratio of the Group as at 30th June, 2001 amounted to 112.4%, being the ratio of "total bank borrowings and the FRNs less cash and cash equivalents and pledged deposits" divided by "shareholders' equity".