# Management Discussion and Analysis

## Interim Dividend

The Directors do not recommend the payment of any interim dividend (2000: Nil).

## Financial Review

For the twelve months ended 30 June 2001, the Group's turnover was HK$340.4 million, representing a 46.3% decrease as compared to HK$634.4 million in the previous corresponding period. The decrease in turnover was mainly due to the continued negative growth in the construction industry in Singapore and shortage of both public and private projects available in the region.

The Group incurred a loss from operations of about HK$235.3 million as compared to the loss from operations of HK$172.1 million in the previous corresponding period. The increase in loss from operations for this twelve-months period was mainly due to the goodwill arising for the acquisition of a subsidiary during the period written off and the write-off of one of the Group's long term investments, Fresh N Fast Holding, Inc..

Since the change of controlling shareholder of the Company in January 2001, the new management has been reviewing the assets structure of the Group with a view to discover idle and under-performed assets or assets that borne no strategic value in developing the Group's principal activities and try to free up some of the Group's resources to improve and strengthen the financial structure of the Group. Accordingly, some previously made investments in companies whose businesses are non-performing, loss-making and borne no stragetic value to the Group's core business are written off during the period under review.

Nevertheless, the management was able to reduce the administrative and operating overheads, and at present, the Group had approximately 380 employees. The management will continue to closely monitor the administrative and operating expenses by efficient utilization of the Group's resources.

## Liquidity and Capital Resources

As at 30 June 2001, the Group had total borrowings of HK$17.4 million as compared to HK$33.2 million at last financial year end, out of which HK$8.8 million (2000: HK$20.7 million) represents bank loan secured by a charge on the shares in an associate of the Company, and the remaining balance of HK$8.6 million (2000: HK$12.5 million) represents obligations under finance leases and hire purchase contracts. The bank loan bears an interest rate of 7% - 8% per annum.

Of the total borrowings, approximately HK$13.9 million (2000: HK$17.2 million) is repayable within one year or on demand; approximately HK$3.5 million (2000: HK$13.8 million) repayable after one year but within two years; and no amount (2000:HK$2.2 million) repayable after two years but within five years. Since the major business operations of the Group are based in Singapore and the majority of the Group's banking and guarantee facilities are in Singapore dollars, there is minimal exposure in exchange rate risk and therefore the group does not adopt any exchange rate management policy currently.

During the period under review, except for the acquisition of Marketspace Commerce International Holding Limited ("MCIH"), the Group did not incur or commit any material investment or capital expenditure. In June 2001, the Company raised approximately HK$47 million after expenses from a rights issue exercise as general working capital. Funding requirements for investments and capital expenditures will be met by these internal cash flows.

Shareholders' funds of the Group as at 30 June 2001 amounted to approximately HK$128.3 million (2000: HK$232.1 million). Accordingly, the Group's gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' funds as at 30 June 2001 was 13.6% (2000: 14.3%)

# Management Discussion and Analysis

## Operating Review

During the period under review, construction projects continued to be the main contributor to the Group's turnover which generate about HK$322.9 million (2000: HK$632.1 million). The construction industry in Singapore during the period was at its bottom phase of recession which registered a double digits negative growth for the year. Faced with a shortage of projects, the Group saw not only fewer orders but also the profits from operations being further depressed by weak tender prices and intense competitions among the competitors. Escalating prices on imported construction materials had also eroded our profit margin, resulting in two of our major subcontractors pull out from our airport projects.

On geographical segments, Singapore remains to be the main contributor the Group's turnover. For the period under review, turnover from Singapore accounted for about HK$332 million (2000: HK$627.2 million) out of the Group's turnover of HK$340.4 million (2000: HK$634.4 million), and was mainly derived from the two airport projects and Changi Naval Base project. Contribution from piling works was greatly reduced due to lack of development projects from the public as well as private sectors. Turnover form regions Malaysia and Myanmar continued to decline as the Group had scaled down the operations in these countries due to the extreme difficult construction market conditions.

Since 2001, the Group started to venture into the Internet-related business. In January 2001, the Company, through its wholly owned subsidiary, acquired MCIH for a total consideration of HK$68 million satisfied by HK$3 million in cash and the balance by the issue of new shares in the Company. MCIH is an investment holding company whose subsidiaries are principally engaged in internet-based e-commerce activities, providing software solutions, consultancy and internet services.

# Management Discussion and Analysis

## Prospects

Although the construction market in Singapore still remain in the negative growth zone, the Group is likely to be awarded two new infrastructure projects with contract sum around HK$227.5 million in the near future. In addition, the Group is actively marketing the marine engineering services and has ventured into soil improvement works in Malaysia. Capitalising on the Group's vast experience in mega port projects in Singapore, the Group has formed strategic alliance with Singapore partners and are pursuing some mega port projects in Malaysia, Bangladesh, Korea, Cambodia, Philippines, Indonesia and United Arab Emirates.

The business in marine plant rental has also picked up and the Group is aggressively marketing the rental services in the region where a large fleet of equipment has been successfully leased out to Hong Kong in a land reclamation project recently. With the aggressive marketing strategies to market the sales and rental services of our large fleet of equipment and vessels in Singapore and in the region, it is expected to contribute steady revenue from sales and rental activities of equipment and vessels in the coming financial year. The management believes that with the Group's proven track record and expertise, the Group is well positioned to take every opportunity in the construction sector when the construction industry in Singapore and in the region recovers.

The management has been examining potential investment opportunities that may arise from time to time that can improve the shareholders' value. Subsequent to the interim balance sheet date in July 2001, the Company, through its wholly owned subsidiary, acquired a 19% interest in an 'intelligent home' management software company for a cash consideration of HK$38 million. The management believes that although the company is in second year of operations, it has a huge business potential with the 'intelligent home' concept, in particular in the PRC market. In addition, the company is actively seeking strategic alliances with major property developers in the Asia Pacific Region which the management believes they will bring with the Group potential business opportunities in the construction as well as the Internet related business operations.

# Management Discussion and Analysis

## Change of Financial Year End Date

In July 2001, the Company has resolved to change the financial year end date of the Company and its subsidiaries from 30 June to 30 September commencing from the year 2001.

## Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchases, sold or redeemed any of the Company's listed securities during the period under review.

## Directors' Interests in Shares

As at 30 June 2001, none of the Directors, chief executives or their respective associates had any personal, family, corporate or other interests in the shares or other securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") which was required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 of or Part 1 of the Schedule to the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies established by the Stock Exchange, to be notified to the Company and the Stock Exchange.

## Directors' Rights to Acquire Shares

Apart from the Company's share option scheme adopted on 29 November 1993, during the twelve months ended 30 June 2001, no rights were granted to the Directors, chief executives of the Company, or any of their spouses or children under 18 years of age to subscribe for equity or debt securities of the Company.

No option was granted to any of the Directors of the Company during the period under review pursuant to the existing share option scheme as mentioned above. As at 30 June 2001, there were no share options outstanding which entitle the any of the Directors of the Company to subscribe for shares in the Company.

# Management Discussion and Analysis

## Substantial Shareholders

As at 30 June 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

| **Name of Shareholder** | **Number of Shares** | **Approximate percentage of issued share capital of the Company** |
|---|---|---|
| Cyber Best Trading Limited | 451,870,692 | 30.31% |
| Lin Che Chu | 451,870,692 *(Note)* | 30.31% |

*Note: Mr. Lin Che Chu is deemed to be interested in the 451,870,692 shares of the Company through his interest in Cyber Best Trading Limited which is a company wholly and beneficially owned by him.*

According to the register of interests kept by the Company under Section 16(1) of the SDI Ordinance and so far as was known to the Directors, other than the interests disclosed herein, there was no other person (other than a director or chief executive of the Company) who, as at 30 June 2001 was, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group or in any options in respect of such capital.

## Code of Best Practice

Throughout the accounting period, the Company has in compliance with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules except that the non-executive Directors and the independent non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the Annual General Meeting in accordance with the Company's articles of association.

By Order of the Board
**CHINA DEVELOPMENT CORPORATION LIMITED**
**Cheung Yu Shum Jenkin**
*Chairman*

Hong Kong, 27 September 2001