

## Interim Report 2001-2002

### MOVEMENT OF RESERVE

There have been no movements in the reserves of the Group during the Period except for the loss recognized during the Period.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Business review and prospects

During the first half of this financial period, the turnover of the Group was amounted to approximately HK\$107.3 million (1.8.2000 to 31.1.2001: HK\$135.4 million), representing a 20.8% drop from the same period last year. Net loss attributable to shareholders was HK\$37.5 million for the six months ended 31st January, 2002 (the "Period"), compared with a net loss of HK\$28.7 million a year ago.

The Group's turnover is mainly derived from the repairs and maintenance of civil engineering establishments and buildings under construction contracts awarded by the Government of Hong Kong Special Administrative Region ("HKSAR"). Currently, the Group is working on three civil engineering contracts awarded by the Government of the HKSAR, with completion dates phased between April 2002 and July 2002. As at 31st January, 2002, total value of contract work on hand amounting to HK\$175 million.

The Group continues to hold (i) 38% of GreaterChina Technology Group Limited, the shares of which were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and (ii) 33% of GZTF Engineering Consulting Co., Ltd.

During the Period there were no significant acquisitions and disposals of any subsidiaries or other investments.

For segmental information for the Period, please refer to the discussion in the above.

#### Financial results

##### *Borrowings and charge on Group assets*

Bank borrowings of the Group at the end of the Period amounted to HK\$454 million (31.7.2001: HK\$463 million), which is fully secured by the cash deposits and fixed assets of the Group. Obligation under finance leases and hire purchase contracts were reduced by HK\$1.2 million from 31st July, 2001 to 31st January, 2002 because of repayment.

As at 31st January, 2002, leasehold land and building having aggregate net book value of approximately HK\$40 million (31.7.2001: HK\$41 million), bank deposits of approximately HK\$416 million (31.7.2001: HK\$413 million), completed property for sale approximately HK\$30 million (31.7.2001: HK\$30 million) and certain trade receivables from customers of the Group have been pledged to banks to secure credit facilities granted to the Group.

With respect to the interest rate structure of the borrowings, most of bank borrowings were charged by interest rate in line with the deposit rate offered to the Group's bank deposits and the other were based on the best lending rate offered by the banks. The management considers this structure is conservative and flexible for the daily operations of the Group.

### *Gearing ratio*

The gearing ratio was 68.3% as at 31st January, 2002 and 70% as at 31st July, 2001. Computation is based on the total bank borrowings and obligation under finance leases and hire purchase contracts compared to total capital and reserve of the Group. As most of the bank borrowings are secured by bank deposits, effective gearing ratio of the Group computed by net outstanding bank borrowings and obligation under finance leases and hire purchase contract compared to total capital and reserve is insignificant.

### *Exchange rate exposure*

Most of the Group's cash and cash equivalents were held in Hong Kong dollar or Renminbi. Borrowings of the Group were also made in these currencies to avoid the fluctuation in exchange rates. As the exchange rates of Renminbi against Hong Kong dollar were relatively stable during the Period, the Group was not exposed to any significant risk in exchange rate.

### *Current ratio*

The current ratio as at 31st January, 2002 was reported as 1.2 and it was the same as at 31st July, 2001. The directors are of the opinion that the Group has sufficient liquid assets to maintain daily operations of the Group.

### *Capital commitments and contingent liabilities*

Other than HK\$4.4 million for the acquisition of shares in a subsidiary from a minority shareholder (31.7.2001: HK\$4.4 million) and HK\$2.8 million (31.7.2001: HK\$2.8 million) for the construction of golf resort that contracted and HK\$1.9 million for the construction of properties authorized (31.7.2001: HK\$1.9 million), there were no other significant capital commitments or contingent liabilities outstanding as at the end of the Period.

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### *Employees*

As at 31st January, 2002, the Group had hired approximately over 300 employees (31.7.2001: 300). Remuneration package of the staff includes monthly salaries, medical claims, education subsidies and share option scheme. A new share option scheme was approved and adopted in January 2002. Details of the new share option scheme were stated below.

### *Capital Structure*

Pursuant to an agreement dated 12th November, 2001 and a supplemental agreement dated 26th November, 2001, the Company entered a conditional placing and underwriting agreement with the placing agents for a private placing of 400,000,000 units of warrants of the Company at a price of HK\$0.10 per unit to independent investors. Each unit of warrants will give the warrantholder the right to subscribe in cash for one share of the Company at an initial subscription price of HK\$0.35 per share of HK\$0.10 of the Company (subject to adjustment) at any time from the date of issue thereof up to and including 11th June, 2003.

The warrants were started trading on 12th December, 2001. During the Period, no registered warrantholders exercised their rights to subscribe for shares in the Company.

On 10th January, 2002, an ordinary resolution was passed at a special general meeting to increase the authorized share capital of the Company from HK\$300,000,000 to HK\$800,000,000 by the creation of an additional 5,000,000,000 shares of HK\$0.10 each in the capital of the Company.

### *Future plans*

On 22nd April, 2002, the Directors signed two agreements on behalf of the Group to dispose of all its shareholding interests in two of its subsidiaries Wai Shun Construction Company Limited and Wing Fai Construction Company Limited to an independent third party. One of the Group's principal business is the repair and maintenance of civil engineering establishments and buildings under construction contracts which was mainly conducted through the aforementioned companies in Hong Kong. With the drastic downturn in the Hong Kong economy, the impact on the entire civil engineering construction business was most severe. The Group, therefore decided to focus less on the repair and maintenance side of the construction projects in Hong Kong and to utilize its efforts to expand other businesses of the Group being the sale of properties in the PRC, the provision of medical and health services in the PRC, the provision of consultancy services on construction projects in the PRC and other investment opportunities.