

Management Discussion and Analysis

Interim Dividend

The Directors do not recommend the payment of any interim dividend (2001: Nil).

Financial Review

For the six months ended 31 March 2002, the Group's turnover was HK\$104.5 million, representing a 36.6% decrease as compared to HK\$164.7 million in the previous corresponding period. The decrease in turnover was mainly due to the difficulty in implementing the on-going projects as a result of lack of working capital which further delay the project schedules.

The Group incurred a loss from operations of about HK\$22.7 million as compared to the loss from operations of HK\$57.8 million in the previous corresponding period. The decrease in loss from operations for this six months period was mainly due to the inclusion of the write-off of an exchange reserve on liquidation of a subsidiary in the previous corresponding period which amounted to about HK\$28 million.

During the period under review, 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 31 March 2002, the Group had total financial borrowings of HK\$4.8 million as compared to HK\$8.1 million at last financial year end of which the balance (30 September 2001: HK\$7.6 million) represents obligations under finance leases and hire purchase contracts, and the Group had no bank loan outstanding (30 September 2001: HK\$0.5 million).

Of the total financial borrowings, approximately HK\$3.2 million (30 September 2001: HK\$5.3 million) is repayable with one year or on demand; approximately HK\$1 million (30 September 2001: HK\$2.1 million) repayable after one year but within two years; and approximately HK\$0.6 million (30 September 2001: HK\$0.7 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.

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During the period under review, the Group had obtained short term borrowings of HK\$49.2 million (30 September 2001: HK\$47.6 million) repayable with one year with interest rates at prime plus 1% to 2%.

Shareholders' funds of the Group as at 31 March 2002 amounted to approximately HK\$20.7 million (30 September 2001: HK\$44.3 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 31 March 2002 was 260.9% (30 September 2001: 125.7%). The deterioration of the gearing ratio of the Group was mainly due to the reduction in the Group's shareholders' funds as a result of further operating losses incurred for the period under review.

During the period under review, the Group did not incur or commit any material investment or capital expenditure. Given the current liquidity of the Group, the Group may look into further fund raising exercises in the debt and equity markets when appropriate.

Operating Review

During the period under review, construction projects continued to be the main contributor to the Group's turnover which generate about HK\$94 million (2001: HK\$159.8 million). The construction market still remains sluggish. 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.

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\$100.1 million (2001: HK\$161.2 million) out of the Group's turnover of HK\$104.5 million (2001: HK\$164.7 million). The decrease in turnover was mainly due to the difficulty in implementing the on-going projects as a result of lack of working capital which further delay the project schedules. Nevertheless, the Group had secured four new projects, namely Punggol East Development Project, Yishun Development Project, Miri Town bridge linking project and Double Track Electric Rail Project soil improvement works.

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Since 2001, the Group started to venture into the Internet-related business. However, due to the current market condition, it had contributed minimal to the Group. The management will continue to look into this area when opportunities arise.

Prospects

As mentioned and detailed in the Company's previous announcements and 2001 Annual Report, the Company and the Sum Cheong Group, the Company's construction arm in Singapore had received demand letters from a major supplier of the Sum Cheong Group, demanding payments of S\$16.3 million or HK\$69 million drawn under a trade facility of S\$25 million or HK\$105.8 million granted by that major supplier to the Sum Cheong Group. By virtue of a Deed of Guarantee & Indemnity signed on 14 September 1998, the Company was the guarantor of the Sum Cheong Group in relation to the above mentioned trade facility.

In light of this financial obligation of the Company, the management had been in discussions with the management of the Sum Cheong Group about a proposed management buy-out. In summary, under this proposed management buy-out, the Company will transfer the entire shareholdings in the Sum Cheong Group to the management of the Sum Cheong Group together with additional financial support to the Sum Cheong Group, and in return, the management of the Sum Cheong Group will procure the release of all corporate guarantees from the Company in relation to the Sum Cheong Group which amounted to approximately S\$34.8 million or HK\$147.2 million. The proposed management buy-out will be subject to consents and approvals from relevant parties including the shareholders of the Company, that major supplier and the insurance company providing the trade credit and guarantee facilities for the Sum Cheong Group, etc..

The management of the Company believes the proposed management buy-out is one of the available alternatives to effectively discharge the liabilities of the Company under the demand letter received from that major supplier as well as other guarantees and contingent liabilities that may arise as the holding company of the Sum Cheong Group. The negotiations with the management of the Sum Cheong Group is in the final stage and the management expects that the final terms and conditions of the proposed management buy-out will be concluded in the very near future. Further announcements of the Company will be made shortly.

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The construction market in Singapore will still remain in the negative growth zone even though the government has put into great effort to release more mega infrastructure works in the market. In order to build on the existing operations, the Group determined to step into the construction market in Hong Kong. Subsequent to the period under review in April 2002, the Group acquired a Hong Kong based construction company which is principally engaged in the provision of construction and engineering works in Hong Kong. The management believes that the acquisition of this local construction company provides additional revenue and earnings source to the Group while leveraging on the present expertise of the Group.

To increase the Group's revenue, earning streams and net cash inflow, in June 2002, the Group acquired majority interests in a food retailing company as well as a department store company which principally engaged in retail business targeting tourists visiting Hong Kong.

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 31 March 2002, 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.

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Directors' Rights to Acquire Shares

Apart from the Company's share option scheme adopted on 7 March 2002, during the six months ended 31 March 2002, 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 31 March 2002, there were no share options outstanding which entitle the any of the Directors of the Company to subscribe for shares in the Company.

Substantial Shareholders

As at 31 March 2002, 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 (<i>Note</i>)	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 31 March 2002 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.

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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.

Appointment of executive directors

The Board of Directors is pleased to announce that Mr. LAM Siu Sek and Mr. NG Wai Ming had been appointed as executive directors of the Company with effective from 27 June 2002.

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

Hong Kong, 27 June 2002