

# Management Discussion and Analysis



## FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2002 amounted to HK\$74,068,000 (2001: HK\$25,928,000), representing an increase of 185.67% as compared with last year. Profit attributable to the shareholders amounted to HK\$141,004,000 (2001: HK\$384,388,000), representing a decrease of 63.32% as compared with last year. Such decrease was mainly attributable to the profit generated by the waiver of part of the debts by the relevant bank creditors and other creditor following the successful completion of the restructuring exercise in August 2000. After deducting the aforesaid profit and restructuring expenses, the adjusted loss attributable to the shareholders should be HK\$17,713,000 for last year. Accordingly, the profit for the current year actually increased by HK\$158,717,000, representing an increase of

896.05%, as compared with last year.

As at 31 March 2002, the total assets and net assets of the Group were HK\$1,169,235,000 (2001: HK\$960,840,000) and HK\$573,284,000 (2001: HK\$435,058,000) respectively, representing an increase of 21.69% and 31.77% respectively as compared with last year.

The cash flow position of the Group remained solid. As at 31 March 2002, the Group's cash on hand and deposits held in banks and other financial institutions totalled approximately HK\$206,356,000 (2001: HK\$115,463,000). The Group's working capital (net current assets) amounted to HK\$198,565,000 (2001: deficit of HK\$172,258,000), which increased significantly as compared with last year. The Group's outstanding bank borrowings reduced significantly from HK\$223,603,000 to





HK\$177,479,000 which mainly comprised secured bank loans of approximately HK\$53,626,000 repayable within one year and secured bank loans of approximately HK\$123,853,000 repayable after one year. The gearing ratio was 32.28% (total borrowings/total assets).

The management believes that the existing financial resources are sufficient for its future expansion plan. If the Group requires additional funding to capture business opportunities that may arise in the future, the management believes that the Group will be able to obtain financing at favorable terms or attract strategic investors.

The Group continued to adopt a prudent policy on financial risk management and had no material exposure to fluctuation in exchange rate.

## **BUSINESS REVIEW**

### **Environmental Protection and Water Treatment Operation**

In order to complement the development of the Group's environmental protection and water treatment operation in the People's Republic of China (the "PRC"), the Group has established Interchina Environmental Protection Co. Ltd. and Interchina Water Treatment Ltd. to actively identify and secure high value-added and high-return environmental protection and water treatment projects in the PRC. In October

2001, the Group signed for the establishment of an environmental technology research center with Tsinghua University in Beijing, with an initial investment amounting to RMB5,000,000. In December 2001, Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd., an associated company, was established to develop environmental protection projects in the PRC. The total investment involved was RMB15,000,000. In addition, the Group also formed a strategic alliance with North China Municipal Engineering Design & Research Institute (中國市政工程華北設計研究院), Department of Environmental Science and Engineering of Tsinghua University, Beijing and Beijing Municipal Construction Group Co., Ltd. (北京市政建設集團有限責任公司) to develop infrastructure business and establish sewage treatment plants in the PRC. In March 2002, the Group committed to invest RMB40,000,000 in water supply project in Hangzhong City, Shanxi Province and officially embarked on its water supply operation.

### **City Development and Investment Operation**

Furthermore, the management is actively exploring its city development and investment operation in the PRC so as to diversify the Group's businesses and generate remarkable and stable returns. This, in turn, helps to enhance the efficiency of the Group's investment on property and securities operation. For this purpose, the Group entered into a co-operative agreement in March 2002 with

## MANAGEMENT DISCUSSION AND ANALYSIS

Changsha Municipal Government and Changsha Municipal Land Development and Construction Company Limited, to participate in the construction of the infrastructure facilities for Changsha New Sports City in preparation of the 5th National City Games. In May 2002, Interchina (Changsha) Investment & Management Co., Ltd. (國中(長沙)體育新城投資項目管理有限公司), a wholly-owned subsidiary, was established with total investment of US\$29,800,000.

### Property Investment Operation

In order to optimize its property investment portfolio, the Group has disposed certain non-premium investment properties. Therefore, the Group's rental and management fees income for the year ended 31 March 2002 decreased by 22.17% to HK\$20,181,000 (2001: HK\$25,928,000) as compared with last year. The occupancy rate of the Group's another major investment property in Shanghai, namely Shanghai Underground Shopping Mall, reached up to 100%, with its registered capital increased to US\$9,000,000 during the year.

Further, the Group generated a gain of HK\$149,163,000 from the disposal of an investment property situated in Beijing during the year for a consideration of HK\$151,000,000.

As the management was optimistic about the potential of the property market in the PRC, the Group made further investment in its property development project situated at the

Beiwaitan area in Shanghai, the PRC in January 2002. Its beneficial shareholdings increased from 54% to 90%. As at 31 March 2002, the Group has invested a total of approximately RMB160,000,000 for the development of this project. This project is now in the final phase of resettlement and approval of construction plans.

The construction of a private clubhouse, 上海國中會所, in Shanghai was completed. In October 2001, the Group established 上海國中酒店有限公司 which successfully tendered for a piece of prime land located at the riverside of Suzhou on Hengfeng Road in Shanghai at a consideration of approximately RMB60,000,000 which is planned to be developed into a five star hotel or serviced apartments. With all these progresses, the Group's development plan for hotel and clubhouse operation was determined.

### Securities and Financial Operation

Despite the economic slowdown in Hong Kong and over the world in 2001, and the September 11 incident which resulted in a global economic turmoil, the operations of Interchina Securities and Futures, which was acquired at the beginning of the year, still recorded a profit of HK\$13,653,000 to the Group for the year ended 31 March 2002. In order to strengthen our investment in securities operation, the Group increased the registered and issued capital of the securities operation and its shareholdings up to HK\$100,000,000 and 85% respectively in November 2001.





## LIQUIDITY AND FINANCIAL RESOURCES

In September 2001, the Group successfully issued 3-year convertible loan note with an aggregate amount of HK\$200,000,000, bearing interest at 3% per annum. The Group intends to use the net proceeds from the issuance of convertible loan note for the expansion of its existing securities operation and other projects with growth potential, such as infrastructure and environmental protection projects. During the year, the Group utilized HK\$50,000,000 out of the proceeds from the issuance of convertible loan note to subscribe for the new shares of Interchina Securities Limited. The balance of the proceeds will be applied to other investment projects with growth potential, such as infrastructure and environmental protection projects.

As at 31 March 2002, approximately 93% (2001: 68%) of the Group's bank borrowings were denominated in Hong Kong dollars with the balance in Reminbi. The Group's bank borrowings were mainly arranged on a floating rate basis and secured by the Group's investment properties.

## CONTINGENT LIABILITIES

As at 31 March 2002, the Group executed a guarantee amounting to HK\$100,000,000 in respect of mortgage facilities granted by a bank to third parties.

## DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of all the issued share capital of its subsidiary, China Treasure Development Limited, at a consideration of HK\$151,000,000 resulting in a gain of HK\$149,163,000.

## CHARGES ON GROUP ASSETS

As at 31 March 2002, the Group's assets were pledged as security for liabilities comprising investment properties of HK\$275,000,000 (2001: HK\$340,327,000) and properties, plants and equipment of HK\$215,393,000 (2001: HK\$158,673,000).

## EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2002, the Group had a total of 363 employees in the PRC and Hong Kong. Staff costs for the year amounted to HK\$27,913,000 (2001: HK\$16,530,000). In order to maintain competitiveness of the remuneration policy, the salary and bonus of the staff are based on their individual performance. Apart from setting up a retirement benefits scheme and a share option scheme for its staff, the Group has also provided them with various value-added training courses.