

Management Discussion and Analysis

Interim Dividend

The Directors do not recommend the payment of interim dividend for the period (2002: Nil).

Financial Review

During the period under review, the Group's turnover was approximately HK\$50.6 million, representing a 51.6% decrease when compared to the same period last year of approximately HK\$104.5 million. The decrease in turnover was mainly due to the disposal of a major subsidiary group engaged as construction companies in Singapore, which contributed 96.8% of turnover to the Group for the six months ended 31 March 2002.

The Group incurred a loss from operations of approximately HK\$2.7 million as compared to the loss from operations of approximately HK\$22.7 million in the last corresponding period. The disposed subsidiaries contributed 49.3% of the group's loss from operations for the six months ended 31 March 2002. In addition, the management continued to implement cost-containment programmes and procedures to better utilize the Group's resources.

Liquidity and Capital Resources

As at 31 March 2003, the Group had total financial borrowings of approximately HK\$95.3 million as compared to approximately HK\$118.3 million at last financial year end date, of which approximately HK\$0.08 million represented obligations under finance leases (30 September 2002: approximately HK\$0.15 million).

The Group's total financial borrowings were denominated in Hong Kong dollars and bear interest at floating rates. Of the total financial borrowings, approximately HK\$83.2 million (30 September 2002: approximately HK\$0.1 million) is repayable within one year or on demand, while approximately HK\$12.2 million (30 September 2002: approximately HK\$118.2 million) is repayable after one year.

Management Discussion and Analysis (*Continued*)

The bank loan of approximately HK\$1.0 million were secured by property, plant and equipment with a carrying value of approximately HK\$2.3 million as at 31 March 2003 (30 September 2002: approximately HK\$2.3 million).

Shareholders' funds of the Group as at 31 March 2003 recorded a deficit of approximately HK\$96.6 million compared with a deficit of approximately HK\$95.2 million as at 30 September 2002. Accordingly, the gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' fund was not applicable.

During the period under review, the Group did not incur or commit any material capital expenditure.

Cash and bank balances amounted to approximately HK\$3.6 million at 31 March 2003 and is mainly denominated in Hong Kong Dollars. The Company was not exposed to any material exchange rate fluctuation during the period under review.

Review on Operations

Construction Business

Construction projects generated turnover of about approximately HK\$16.4 million which contributed 32.5% of the Group's total turnover. The construction market remains sluggish in Hong Kong during the period under review and intense competitions also exerted downward pressure on the tender prices. For the six months ended 31 March 2003, construction business incurred an operating loss of approximately HK\$0.8 million.

Management Discussion and Analysis (*Continued*)

Retail Business

Being still at its start-up stage of its business life cycle, the retail business of the Group has built up a significant volume of turnover amounting to approximately HK\$34.1 million during the period. Such success was mainly brought about by the removal of quotas on incoming PRC tourists. However, as competition in the domestic market was keen, retail business of the Group recorded an operating loss of approximately HK\$0.3 million.

Prospects

In the second half of 2003, construction business in Hong Kong and domestic retail trading will still be the major operations and revenue generators of the Group. However, the Group will continue to explore new business and investment opportunities with good potential in diversifying its scope of operations and bringing in new sources of income.

Given the overwhelming budget deficit suffered by the government of Hong Kong Special Administrative Region, it is not likely for the city to commence as many large scale infrastructure constructions as it does in the past decade. However, the Group is still confident that the construction of the country's first Disney Park and various railways inside the city will keep on creating a steady demand for construction equipment rental and other related services.

Following the package of measures to boost tourism and the economy conducted immediately after Hong Kong is removed from the World Health Organisation (WHO) list of SARS-infected areas, it is expected that inbound tourists to Hong Kong will soar significantly and will return to the 2002 level soon. It is conservative optimistic that the retail business operating by the Group will enjoy a notable rebound in trading volume and profitability when the number of tourists from the PRC visiting Hong Kong returns to normal.

Management Discussion and Analysis *(Continued)*

Under the prevailing stagnant and recessed economy, the Group will continue to take a conservative and cautious posture in seeking more viable business ventures that could help maintaining the long-term value of both the Group and its shareholders.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 March 2003.

Director's Interests in Shares

As at 31 March 2003, 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

As at 31 March 2003, there were no outstanding share options granted by the Company pursuant to the share option scheme of the Company adopted on 7 March, 2002. No share options were granted, exercised, cancelled or lapsed during the period.

Management Discussion and Analysis (Continued)

Save as disclosed above, at no time during the period was the Company or any of its associated corporations a party to any arrangements to enable the directors of the Company, or their spouse and children under the age of 18, to acquire benefits by means of the acquisition of shares, or debentures of the Company or any other body corporate or had exercised any such rights during the period.

Substantial Shareholders

As at 31 March 2003, the following persons were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance showed that, the following shareholders had an interest of 10% or more of the issued share capital of the Company:-

Name	Number of shares	Approximate percentage of issued share capital
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 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.

Save as disclosed above, as at 31 March 2003, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company.

Code of Best Practice

None of directors of the Company is aware of any information that would reasonably indicate that the Company is not complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, except that the Non-Executive Director and the Independent Non-Executive Directors are not appointed for a

Management Discussion and Analysis (*Continued*)

specific term as subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

Audit Committee

The audit committee and Deloitte Touche Tohmatsu, the Company's auditor, have reviewed with management the accounting principles and practices adopted by the Group and discussing auditing, internal control and financial reporting matters including the review of the unaudited interim financial report for the six months ended 31 March 2003.

By Order of the Board
CHINA DEVELOPMENT CORPORATION LIMITED
Kwok Ka Lap, Alva
Executive Director

Hong Kong, 25 June 2003