



INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the six months ended 30 September 2001 amounted to HK\$35,498,000 (2000: HK\$14,349,000), representing an increase of 147.39% as compared with the same period last year. Profit attributable to the shareholders amounted to HK\$139,938,000 (2000: HK\$395,635,000), representing a decrease of 64.63% as compared with the same period 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 creditors 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\$6,768,000 for the six months ended 30 September 2000. Accordingly, should the above factor not taken into account, the profit attributable to the shareholders for the six months ended 30 September 2001 actually increased by HK\$146,706,000 as compared with the adjusted loss to the shareholders in the same period last year.

As at 30 September 2001, the total assets and net assets of the Group were HK\$1,185,531,000 (31 March 2001: HK\$960,840,000) and HK\$570,727,000 (31 March 2001: HK\$435,058,000) respectively, representing an increase of 23.38% and 31.18% respectively as compared with that as at 31 March 2001.

The cash flow position of the Group remained solid. As at 30 September 2001, the Group's cash on hand and deposits held in banks and other financial institutions totalled approximately HK\$179,057,000 (31 March 2001: HK\$115,463,000). The Group's working capital (net current assets) amounted to HK\$286,315,000 (31 March 2001: deficit of HK\$172,258,000), which increased significantly as compared with that in the same period last year. The Group's outstanding bank borrowings reduced significantly from HK\$223,603,000 to HK\$185,520,000, which mainly comprised secured bank loans of approximately HK\$61,783,000 repayable within one year and secured bank loans of approximately HK\$123,737,000 repayable after one year. The gearing ratio was 32.52% (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.

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



BUSINESS REVIEW

Property Investment and Development Operation

In view of the continuing decline of the Hong Kong economy and following the disposal of certain investment properties by the Group, the Group's rental and management fees income for the six months ended 30 September 2001 decreased by 18.28% to HK\$11,725,000 (2000: HK\$14,349,000) as compared with the same period last year.

As at 30 September 2001, the Group has invested approximately RMB100,000,000 in the property development project at Beiwaitan District in Shanghai, the People's Republic of China (the "PRC"). Demolition and resettlement works were in store and approval of construction plans of the project entered the final phase.

Securities and Financial Operation

Although competitions within the securities industry intensified during the year 2001, our securities operation, which was acquired at the beginning of the year, still recorded commission income of HK\$23,773,000, accounting for 66.97% of the Group's total turnover, and contributed net income of HK\$2,797,000 to the Group.

Infrastructure and Environmental Protection Operation

In order to complement the development of the Group's infrastructure and environmental protection operation in the PRC, the Group has established a framework and platform for the development of infrastructure and environmental protection operation. Related subsidiaries have been formed to actively identify and secure high-value and high-return infrastructure and environmental protection projects in the PRC.



PROSPECTS

Property Investment and Development Operation

Following China's successful accession to the World Trade Organization and the furtherance of its open-door policy, the economy of China will undoubtedly develop at an unprecedentedly fast pace. This will result in a significant increase in the demand for office buildings and residential apartments. As the Group expects flourish development of the PRC property market, the Group intends to increase the Group's premium land reserves by strengthening its cooperation relationship with various local authorities through participation in infrastructure and environmental protection projects in the PRC.

Securities and Financial Operation

Apart from developing its existing property investment and development operation, the Group will further invest in the securities operation and seeks opportunities to develop other financial services. In November this year, the authorized and issued capital of Interchina Securities Limited ("ICS") increased to HK\$100,000,000, and the Group's shareholding in ICS increased from the existing 70% to 85%. The management is optimistic about the economic reforms and the open-door policy of China, so the Group may acquire local brokerage firms or introduce strategic investors to strengthen the securities operations for its future diversification into the PRC's securities and financial businesses.

Infrastructure and Environmental Protection Operation

The management intends to develop the environmental protection operation in the PRC in order to exploit high-growth operations for the Group. Meanwhile, the Group will leverage on its infrastructure and environmental protection operation to generate considerable and steady returns, and to obtain low-cost land reserves for the Group's property development in the PRC. In October 2001, the Group has established an environmental technology research center with Tsinghua University in Beijing, with an initial investment amounting to RMB5,000,000. Moreover, the Group has formed a strategic alliance with North China Municipal Engineering Design & Research Institute and Beijing Municipal Construction Group Co., Ltd to develop infrastructure business and establish sewage treatment plants in the PRC.

Hotel and Clubhouse Operation

The construction of a private clubhouse in Shanghai has already been completed. The Group is working with a renowned public relation firm in Hong Kong and other relevant professionals to formulate operating patterns and member recruitment plans for the clubhouse to provide quality services to all members whether during business hours or leisure time.

In October 2001, the Group formed 上海國中酒店有限公司 and successfully bid for a piece of prime land located at the riverside of Suzhou at a price of approximate RMB50,000,000. The site may be developed into a 5 star hotel or serviced apartments.



Liquidity and Financial Resources

During 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 cash 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.

As at 30 September 2001, approximately 86% of the Group's bank borrowings were dominated in Hong Kong dollars with the balance in Reminbi (31 March 2001: 68%). 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 30 September 2001, 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 period, the Group disposed of all the issued share capital of its subsidiary, China Treasure Development Limited, to Green Smart Properties Co., Limited at a consideration of HK\$151,000,000 resulting in a gain of HK\$149,163,000.

Charges on Group Assets

As at 30 September 2001, the Group's assets were pledged as security for liabilities comprising investment properties of HK\$359,000,000 (31 March 2001: HK\$340,327,000) and properties, plants and equipments of HK\$141,093,000 (31 March 2001: HK\$158,673,000).

Employment and Remuneration Policy

As at 30 September 2001, the Group had a total of 395 employees in the PRC and Hong Kong. Staff costs (excluding directors' remuneration) for the period amounted to HK\$15,267,000 (2000: HK\$7,553,000). In order to maintain competitiveness, the salary and bonus of the staff are based on their individual performance. Apart from setting up a retirement benefits scheme and a share options scheme for its staff, the Group has also provided them with various training and development programs.