

# Chairman's Statement



| Mr. Zhang Yang |

I am pleased to announce that the Group's audited profits attributable to shareholders for the year ended 31 March 2003 amounted to HK\$15,008,000 (2002: HK\$141,004,000), representing a decrease of 89.36% over the previous year. The decrease was attributable to losses incurred as a result of the Group's disposal of part of its investment properties in Hong Kong and smaller gains from the disposal of the Group's subsidiaries relative to the same period last year. At the same time, higher expenses incurred for the start up cost of the Group's environmental protection and water treatment operations and city development and investment programmes also resulted in the reductions in profit.

## **BUSINESS REVIEW AND PROSPECTS**

After almost two years of business restructuring, the Group has successfully transformed itself from a solely property development company into a conglomerate whose core businesses include environmental protection and water treatment operation and city development and investment operation, supplemented by securities and financial operation and property investment operation.

### **Business Review**

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

China has further opened up with its accession to the World Trade Organization.



The country is now well poised for sustained economic growth, with major infrastructural developments in urban areas leading to a robust economy. The privatization of the water treatment operation in China is expected to become a logical development as a result of the country's South-To-North Water Transfer Policy, providing ample business opportunities for water supply and sewage treatment operations.

During the year, construction of the Group's first water supply project in Hanzhong City of the Shaanxi Province was at full swing and was scheduled to commence operation by the end of 2003 with a daily production capacity of 100,000 tons of water.

In addition, the Group was successful in bidding for the development project of a sewage treatment plant in the Haigang District of Qinhuangdao City in Hebei Province in July 2002. Subsequently, a wholly-owned subsidiary, Interchina (Qinhuangdao) Sewage Treatment Company Limited (hereinafter referred to as "IQST"), was established to manage the project. In



November 2002, IQST entered into a franchise agreement with the Qinhuangdao People's Government for a period of 20 years. The total investment of the sewage treatment plant, with a daily sewage treatment capacity of 120,000 tons, is approximately RMB110,000,000. Preparatory work for the project was completed during the year and the project is scheduled for completion by mid-2004.

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

During the year, construction work has commenced for the Group's city development project, the Changsha New Sports City in Changsha City, and has been progressing according to schedule. Road construction work pertaining to the New Sports City was partially completed and nearing completion. The project is expected to be completed by the end of 2003.



#### ***Property Investment***

The luxury residential development in the Changsha City is at the initial preparatory and architectural design stage. The development project will be available for sale by the end of 2003.

In July, 2002, the Group acquired a prime property in Shanghai City for rental income, providing a steady return during the year.

#### ***Securities and Financial Operation***

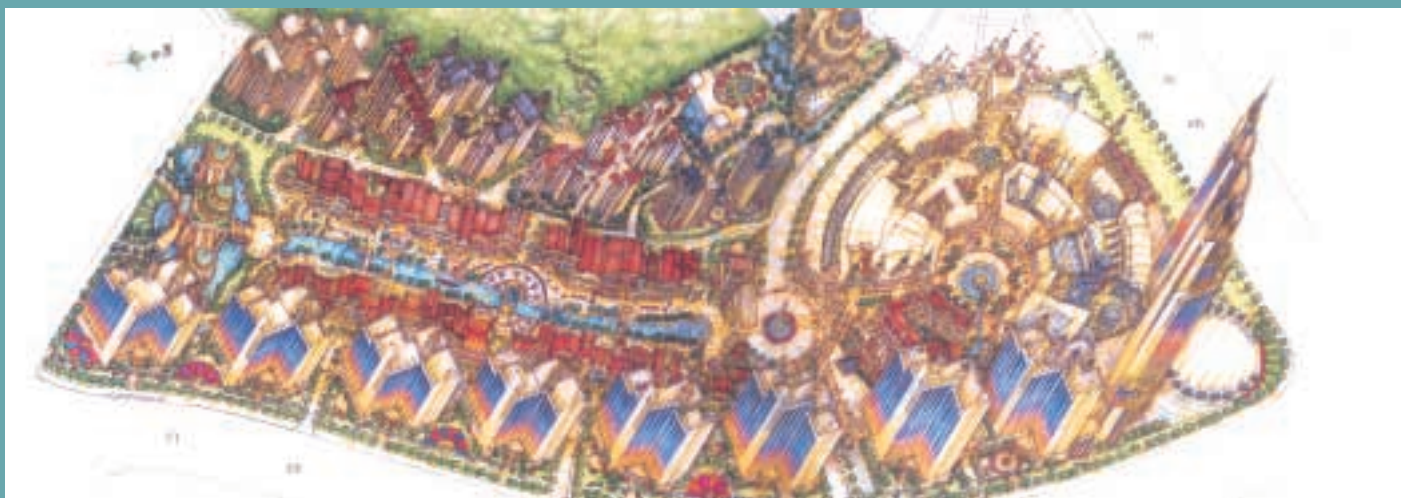
Investment sentiment remained dampened in light of the difficult global and regional economic environments and high unemployment rate. As such, securities commission and interest income from margin clients for the year decreased by approximately 20% compared with last year. By virtue of its quality services, the Group has won support

from its clients and still managed to make profits despite in the midst of intense competition. In order to further enhance the quality of its service and enlarge its market share, the Group has strengthened its technical support facilities and increased its registered capital at Interchina Securities Limited (hereinafter referred to as "Interchina Securities") to HK\$300,000,000 with the intention to further enhance the quality of its service and enlarge its market share.

#### **Prospects**

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

In April 2003, the Group entered into a cooperation agreement with中國節能投資公司(China Energy Conservation Investment Corporation), an enterprise of national level which established in the PRC and which is engaged in the implementation of resources conservation and environmental protection policies to establish a sino-foreign equity joint venture ("JV"), 中環保水務投資有限公司 (China Water & Sewage Treatment Company Limited) (hereinafter referred to as



“ZHWT”). The JV mainly engage in the activities such as investment in the establishment and operation of water plants, development of and investment in water protection equipment, development of sewage treatment technique in the PRC. The total investment of ZHWT is RMB700,000,000. The parties each owns a 50% interest in ZHWT. It is intended that 30 to 40 sewage treatment plants will be built and acquired in the Changjiang Delta, Zhujiang Delta, Huan San Xia Dam area and Jing-Jin region within the next three years.

In addition, the Group entered into a cooperation framework agreement with the Construction Office of Anhui Province, the PRC in April 2003, whereby the Group has been granted an exclusive negotiation right in respect of the development of water

supply, sewage treatment and garbage treatment projects in all cities within the province. It is expected that 1 or 2 projects will be started off and finalized in late 2003, of which medium-sized projects with a daily treatment capacity of 50,000 to 100,000 tons will be top priority. Such projects are expected to lay solid foundation for the development of the Group in the next three years. Therefore, with the completion of water supply project in Hanzhong City by the end of 2003 and the sewage treatment plant development project in Qinhuangdao City in mid-2004, it is expected that environmental protection and water treatment operation will bring a stable operating income to the Group.

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

It is expected that the economic boom in

the PRC will continue and large-scale infrastructure construction for urbanisation will be the ultimate driving force for economic development. The Group's business plan and development targets build on such rationale and are consistent with the PRC's economic development. Accordingly, investment in the PRC infrastructure projects will constitute the key investment projects of the Group in future. The Group will make use of the opportunities arising from the infrastructure projects driven by urbanisation in the PRC to boost its short-term and medium-term profits growth.

The project in Changsha City represents the beginning of the Group's investing activities in city development. The Group is actively



exploring premium city development and investment projects in other areas of the PRC.

#### ***Property Investment Operation***

In addition to its existing property development project situated at the Beiwaitan





area in Shanghai, the PRC, the Group is planning to significantly increase its land bank to ensure the availability of land necessary for its development plans over the next decade. In particular, the Group intends to extend the development model of Changsha City to cover other cities such as Jiangsu and Zhejiang, to look for cities with cultural resources and of travel interest for carrying out urban construction and transformation.

**Securities and Financial Operation**

Investment sentiments remained subdued in light of the difficult global and regional economic environment and a high level of unemployment. As a result, securities commission and interest income from margin clients for the year decreased by approximately 20% as compared with last year. Despite intense competition, the Group continued to get support from its customer recorded profitability due to its quality service. During the year, the Group strengthened its technical support facilities and increased the registered capital of Interchina Securities Limited



(hereinafter referred to as "Interchina Securities") to HK\$300,000,000 with the intention to further enhance the quality of its service and enlarge its market share.

**ACKNOWLEDGEMENT**

I would like to take this opportunity to extend my gratitude to all Board directors and staff of the Group for their continuous efforts and support.

By order of the Board  
**Zhang Yang**  
*Chairman*

Hong Kong, 18 July 2003