

Management Discussion and Analysis



FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2003 amounted to HK\$71,030,000 (2002: HK\$74,068,000), representing a decrease of 4.1% as compared with last year. Profit attributable to the shareholders amounted to HK\$15,008,000 (2002: HK\$141,004,000), representing a decrease of 89.36% as compared with last year. Such decrease was mainly attributable to the loss of HK\$21,000,000 arising from disposal by the Group of part of its investment properties in Hong Kong during the year. Besides, the gain from disposal of the Group's subsidiaries reduced by HK\$71,840,000 as compared with last year.

As at 31 March 2003, the total assets and net assets of the Group were HK\$1,355,512,000 (2002: HK\$1,169,235,000) and HK\$787,721,000 (2002: HK\$573,284,000) respectively, representing an increase of 15.93% and 37.41% respectively as compared with last year.

As at 31 March 2003, cash and deposits held in banks and other financial institutions totalled approximately HK\$49,441,000 (2002: HK\$206,356,000), approximately 30.54% of the deposits was denominated in Hong Kong dollars with the balance in Renminbi. The Group's net current assets amounted to HK\$5,911,000 (2002: HK\$198,565,000),

representing a decrease of 97.02% as compared with last year. Such decrease was mainly attributable to the greater amount of resources required for the long-term investments by the Group due to the commencement of construction of its various environmental protection, water treatment projects and city development and investment projects during the year. The Group's outstanding bank and other borrowings were HK\$258,166,000 (2002: HK\$177,479,000), which mainly comprised bank and other borrowings of approximately HK\$222,686,000 repayable within one year and bank and other borrowings of approximately HK\$35,480,000 repayable after one year. The gearing ratio was 28.45% (total borrowings/total assets).

As at 31 March 2003, approximately 44.22% of the Group's bank and other borrowings were denominated in Hong Kong dollars with the balance in Renminbi. The Group's bank and other borrowings were arranged on a floating rate basis and of which approximately 79.11% were secured by the Group's investment property and property, plant and equipment.

Since the Group mainly developed its business in the PRC and Hong Kong, during the year, there were no significant fluctuations in

the exchange rate of Renminbi against Hong Kong dollar. Accordingly, the Group did not have material risk in foreign exchange fluctuations, and there was no corresponding hedging provision. The Group had neither used any financial instrument for hedging purposes, nor used any instrument for hedging against foreign currency investment.

BUSINESS REVIEW

Environmental Protection and Water Treatment Operation

In March 2002, the Group has participated in a water supply project in Hanzhong City of Shaanxi Province, the PRC. Construction of factory premises and installation of other water supply equipment are currently underway. The project is intended for a daily supply of water of 100,000 tons for Hanzhong City upon completion by the end of 2003.

Moreover, in July 2002, the Group succeeded in its bidding for the development project of a sewage treatment plant in Haigang District, Qinhuangdao City, Hebei Province, the PRC. The total investment of the project is approximately RMB110,000,000. Preparation of construction for the project has now been completed and construction of factory

premises and installation of other sewage treatment equipment have been formally started. It is expected that upon completion of the project by mid-2004, it will have a daily sewage treatment capacity of 120,000 tons.

Since its incorporation in December 2001, Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd (hereinafter referred to as “IAH”), an associate of the Group, has been actively participated in the development and operation of city development and environmental protection infrastructure construction. IAH is mainly engaged in the construction and operation of city development projects and facilities, ecological and environment conservation work, and the development, production and sales of related technology and equipment and technological consultation services. It is currently participating in the water supply project in Hanzhong City of Shaanxi Province, the PRC and the sewage treatment plant development project in Haigang District, Qinhuangdao City, Hebei Province, the PRC.

In order to increase its existing investment scale in water supply and sewage treatment, the Group committed a capital injection of RMB210,000,000 to IAH in November 2002, as a result of which, its interest in IAH will increase from 37.5% to 90%. As at



March 2003, the Group has made capital injection of RMB45,580,000 to IAH resulting in an increase of its interest in IAH from 37.5% to 70.8%. Such capital injection is expected to be completed by this year.

City Development and Investment Operation

The Group has made capital contribution according to the first phase BT (build and transfer) investment agreement entered into with 長沙市土地開發建設有限責任公司 (Changsha Municipal Land Development and Construction Company Limited) (hereinafter referred to as “CSLD”) in September 2002. The first phase of BT investment amounted to RMB180,000,000

which would be used mainly for the construction of highway networks in Changsha New Sports City.

Property Investment Operation

To complement its future business development and in view of the local prevailing gloomy property market, the Group disposed part of its investment properties in Hong Kong during the year and recorded a loss of approximately HK\$21,000,000. During the year, the Group's rental and management fee income amounted to HK\$28,263,000 (2002: HK\$20,181,000), representing an increase of 40.05% as compared with the previous year. Such increase was mainly attributable to the Group's acquisition of the entire issued share capital of Equal Smart Profits Limited in July 2002 at a consideration of HK\$283,000,000. Equal Smart Profits Limited is principally engaged in the investment in and operation of property development projects in the PRC with market potential. The Group has rented out the premium properties in Shanghai, the PRC. Such acquisition will provide the Group with stable rental income for the year.

During the year, the Group also recorded a profit of HK\$77,323,000 in total from the disposal of its interests in subsidiaries,

including Interchina Hotel Management Limited which indirectly holds a piece of land in Shanghai at Heng Feng Road near the bank of Suzhou River, and Burlingame (Chinese) Investment Limited, which holds the Shanghai Underground Shopping Mall in Shanghai.

The Group's property development project located at the Beiwaitan area in Shanghai City, the PRC is still in progress as planned.



Participation in the development of Changsha New Sports City would strengthen the Group's cooperation relationship with the Changsha Municipal Government. Accordingly, the Group entered into a joint venture agreement with CSLD in September 2002 and had subsequently established 長沙國中星城置業有限公司 (Changsha Interchina Zhong Xing Cheng Development Company Limited) (hereinafter referred to as "CSI"), which is engaged in the development of luxury residential units and provision of property management and related businesses.

The total investment in CSI amounted to RMB125,000,000 and the entire project will be completed by the end of 2006.

Securities and Financial Operation



Overshadowed by the difficult global and regional economic environments, investment sentiment remained dampened. During the year, the Group received HK\$42,767,000 (2002: HK\$53,887,000) in commissions from its securities and futures businesses, representing a decrease of 20.64% from the previous year. Such commission income accounted for 60.21% (2002: 72.75%) of the Group's total turnover. After the consolidation of the Group's accounts, earnings from securities and financial operation HK\$7,904,000 (2002: HK\$13,653,000) were recorded, representing a decrease of 42.11% from the previous year.

In October 2002, the Group acquired 15% interest in Interchina Securities Limited (hereinafter referred to as "Interchina Securities") and 30% interest in Interchina

Futures Limited at a consideration of HK\$15,269,000 and HK\$2,639,000 respectively in order to strengthen the investment in its securities business and to pave the way for its venture into the PRC securities and financial industry. Upon completion of the acquisitions, Interchina Securities and Interchina Futures Limited became wholly-owned subsidiaries of the Group. The registered share capital of Interchina Securities further increased to HK\$300,000,000 in December 2002.

LIQUIDITY AND FINANCIAL RESOURCES

In April 2002, the 3-year convertible loan note with an aggregate amounts of HK\$200,000,000 were converted into 200,000,000 ordinary shares of HK\$0.1 each in the share capital of the Group. The undrawn portion of the proceeds from the convertible loan note issued in the previous year amounting to HK\$150,000,000 were used for investing in environmental protection and water treatment operation as well as city development and investment operation.

In January 2003, the Group successfully issued 3-year convertible loan notes up to an aggregate principal amount of HK\$40,600,000. The proceeds were used for expanding the current environmental protection and water treatment operation,

city development and investment operation, and the PRC property investment operation. Details had been included in the announcements dated 2 December 2002 and 30 January 2003.

During the year, the Group mainly derived its financial resources from cash inflow from its operating business, bank and other borrowings and convertible loan notes. In May 2003, the Group has been successfully granted two long-term bank borrowings totalling RMB140,000,000 for the development of the Group's existing environmental protection and water treatment projects. Also, the Group will, in response to additional funds necessary for the Group's present and future business development plans (including capital expenditure), make financial arrangements that are in the Group's shareholders' best interest and to achieve the objective of reducing finance cost.

CONTINGENT LIABILITIES

As at 31 March 2003, 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 THE GROUP'S INTERESTS IN SUBSIDIARIES

During the year, the Group disposed of its interests in subsidiaries, namely Interchina Hotel Management Limited, Burlingame (Chinese) Investment Limited and Make Sales Enterprise Limited, resulting in a total gain of HK\$77,323,000.

PLEDGE OF GROUP'S ASSETS

As at 31 March 2003, the Group's assets were pledged as security for liabilities, comprising investment property with a book value of HK\$88,000,000 (2002: HK\$275,000,000) and property, plant and equipment with a book value of HK\$239,528,000 (2002: HK\$215,393,000).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2003, the Group had a total of 332 employees in the PRC and Hong Kong. Staff costs for the year amounted to HK\$36,288,000 (2002: HK\$27,913,000). In order to maintain competitiveness, salary and bonus of the Group's employees are based on their individual performance. Apart from establishing a retirement benefits scheme and a share options scheme for its employees, the Group also provides its employees with various training and development programs.