



KING PACIFIC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)

Interim
Report
2000

INTERIM RESULTS

The Board of Directors (the "Board") of King Pacific International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2000 together with the comparative amounts for the corresponding period in 1999 as follows. The unaudited condensed consolidated balance sheet of the Group as at 30 September 2000 with audited comparative amounts as at 31 March 2000 is also presented below. The unaudited interim report and the accounting principles and practices adopted by the Group have been reviewed by the Audit Committee of the Group.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2000

		Six months ended 30 September	
		2000	1999
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
TURNOVER	2	307,773	1,314,392
Cost of sales		<u>(288,326)</u>	<u>(1,266,743)</u>
Gross profit		19,447	47,649
Other revenue		2,189	3,642
Administrative expenses		(25,914)	(31,127)
Other operating expenses	3	<u>(16,561)</u>	<u>(6,210)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	(20,839)	13,954
Finance costs		(6,795)	(6,235)
Share of losses of:			
Associates		–	(222)
A jointly controlled entity		–	<u>(3,458)</u>
PROFIT/(LOSS) BEFORE TAX		(27,634)	4,039
Tax	5	<u>–</u>	<u>–</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(27,634)	4,039
Minority interests		<u>–</u>	<u>1,766</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(27,634)</u>	<u>5,805</u>
EARNINGS/(LOSS) PER SHARE (<i>cents</i>)			
Basic	6	<u>(3.01)</u>	<u>0.71</u>
Diluted		<u>N/A</u>	<u>N/A</u>
DIVIDEND	7	<u>–</u>	<u>–</u>

INTERIM RESULTS

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2000

		30 September 2000 (Unaudited) <i>Notes</i>	31 March 2000 (Audited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets		31,294	34,340
Project under development		65,376	64,953
Interests in associates		2,000	2,000
Interest in a jointly controlled entity		168,339	168,339
Long term investments		161,874	162,714
Deposits recoverable and other receivables		65,525	65,525
		494,408	497,871
CURRENT ASSETS			
Stocks and stores		1,090	1,317
Other investments		762	1,918
Accounts receivable	8	53,019	82,874
Prepayments, deposits and other receivables		25,863	26,209
Gross amount due from customers for contract works		–	20
Tax recoverable		769	1,447
Pledged time deposits		3,142	63,546
Cash and bank balances		18,035	15,224
		102,680	192,555
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	9	77,463	150,191
Accounts payable	10	116,094	116,390
Other payables, deposits and receipts in advance		41,195	38,689
Obligations under hire purchase contracts		569	2,180
Tax payable		5,092	5,092
Amounts due to related companies		349	35
Amounts due to directors		11,055	4,927
		251,817	317,504
NET CURRENT LIABILITIES		(149,137)	(124,949)
TOTAL ASSETS LESS CURRENT LIABILITIES		345,271	372,922

INTERIM RESULTS

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2000

	30 September 2000 (Unaudited)	31 March 2000 (Audited)
	<i>Notes</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Long service payment obligations	(406)	(551)
Deferred tax	(537)	(537)
	(943)	(1,088)
MINORITY INTERESTS	(33,141)	(33,141)
	311,187	338,693
CAPITAL AND RESERVES		
	<i>11</i>	
Issued capital	91,753	91,753
Reserves	219,434	246,940
	311,187	338,693

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30 September 2000

	Six months ended 30 September	
	2000 (Unaudited) HK\$'000	1999 (Unaudited) HK\$'000
Exchange differences on translation of the financial statements of foreign entities and gain/(loss) not recognised in the condensed consolidated profit and loss account	128	(20)
Net profit/(loss) from ordinary activities attributable to shareholders	<u>(27,634)</u>	<u>5,805</u>
Total recognised gains/(losses)	(27,506)	5,785
Capital reserve arising from acquisition of additional interests in subsidiaries	<u>—</u>	<u>6,271</u>
	<u><u>(27,506)</u></u>	<u><u>12,056</u></u>

INTERIM RESULTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2000

	Six months ended 30 September 2000 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18,855
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	
Interest received	1,487
Interest paid	(6,788)
Hire purchase interest paid	(246)
Investment income from an unlisted investment	2,964
Net cash outflow from returns on investments and servicing of finance	<u>(2,583)</u>
TAX	
Hong Kong profits tax refunded	<u>678</u>
INVESTING ACTIVITIES	
Proceeds from disposal of a long term investment	750
Purchases of fixed assets	(681)
Additions to project under development	(423)
Repayment of long term loans receivable	150
Net cash outflow from investing activities	<u>(204)</u>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	16,746
FINANCING ACTIVITIES	
Repayment of hire purchase liabilities	(1,611)
Repayment of bank loans	(75,426)
Drawdown of a new bank loan	44,000
Decrease in pledged time deposits	60,404
Net cash inflow from financing activities	<u>27,367</u>
INCREASE IN CASH AND CASH EQUIVALENTS	44,113
Cash and cash equivalents at beginning of period	<u>(43,181)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>932</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	18,035
Bank overdrafts	<u>(17,103)</u>
	<u><u>932</u></u>

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2000

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that comparative amounts are not presented for the condensed consolidated cash flow statement. Such departures from SSAP 25 are permitted under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The accounting policies are the same as those used in the annual financial statements for the year ended 31 March 2000.

2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activity and geographical area of operations for the six months ended 30 September 2000 and 1999 is as follows:

	Turnover		Profit/(loss) from	
	Six months ended		operating activities	
	30 September		Six months ended	
	2000	1999	2000	1999
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activity:				
Building construction and maintenance	265,820	1,263,982	(7,451)	18,013
Property investment and development	-	-	(650)	(1,097)
Restaurant operations	38,989	31,208	(5,419)	(8,778)
Investment activities	2,964	19,202	(7,319)	5,816
	<u>307,773</u>	<u>1,314,392</u>	<u>(20,839)</u>	<u>13,954</u>
By geographical area of operations:				
The People's Republic of China:				
Hong Kong	304,809	1,299,863	(23,669)	2,961
Elsewhere	2,964	14,529	2,950	11,140
Singapore	-	-	(120)	(147)
	<u>307,773</u>	<u>1,314,392</u>	<u>(20,839)</u>	<u>13,954</u>

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2000

3. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	Six months ended 30 September	
	2000	1999
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net unrealised holding loss/(gain) on other investments	1,156	(1,571)
Provision for bad and doubtful debts	7,283	-
	<u>8,439</u>	<u>-</u>

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Six months ended 30 September	
	2000	1999
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation:		
Owned fixed assets	1,545	2,162
Fixed assets under hire purchase contracts	2,182	5,073
	<u>3,727</u>	<u>7,235</u>
Less: depreciation capitalised in construction projects	(2,149)	(4,978)
	<u>1,578</u>	<u>2,257</u>
Net depreciation charge		
Cost of stocks and stores	14,778	12,903
Income from an unlisted investment	(2,964)	(2,964)
Interest income	(1,487)	(1,768)
	<u>10,895</u>	<u>5,568</u>

5. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (1999: Nil).

No provision for tax is required in respect of associates and a jointly controlled entity as no assessable profits were earned by the associates and jointly controlled entity during the period (1999: Nil).

The Group had no significant potential deferred tax liabilities for which provision has not been made as at 30 September 2000.

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2000

6. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders of HK\$27,634,000 (1999: net profit of HK\$5,805,000) and the weighted average of 917,527,066 shares (1999: 818,418,954 shares) in issue during the period.

(b) Diluted earnings/(loss) per share

No diluted loss per share for the period is presented as the effect of any dilution is anti-dilutive. Diluted earnings per share for the previous period was not presented as there were no dilutive potential ordinary shares.

7. INTERIM DIVIDEND

The Board do not recommend the payment of any interim dividend for the six months ended 30 September 2000 (1999: Nil).

8. ACCOUNTS RECEIVABLE

The Group allows an average credit period of 30 days to its trade customers. For retention receivables in respect of the construction works, the due dates are usually two years after the completion of the construction work.

The ageing analysis of accounts receivable was as follows:

	30 September 2000 (Unaudited) HK\$'000	31 March 2000 (Unaudited) HK\$'000
Current to 30 days	22,022	54,338
31 – 60 days	4,466	287
61 – 90 days	17	78
91 – 120 days	65	8
Over 120 days	177	120
	<hr/>	<hr/>
Retention receivables	26,747	54,831
	26,272	28,043
	<hr/>	<hr/>
Total	<u>53,019</u>	<u>82,874</u>

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 September 2000

9. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 September 2000 (Unaudited) <i>HK\$'000</i>	31 March 2000 (Audited) <i>HK\$'000</i>
Bank loans:		
Secured	12,428	43,853
Unsecured	23,608	23,608
	36,036	67,461
Bank overdrafts, secured	17,103	58,406
	53,139	125,867
Other loans wholly repayable within five years, unsecured	24,324	24,324
	77,463	150,191
Amounts due within one year or on demand classified as current liabilities:		
Bank loans and overdrafts	53,139	125,867
Other loans	24,324	24,324
	77,463	150,191

10. ACCOUNTS PAYABLE

The ageing analysis of accounts payable was as follows:

	30 September 2000 (Unaudited) <i>HK\$'000</i>	31 March 2000 (Unaudited) <i>HK\$'000</i>
Current to 30 days	28,391	70,600
31 – 60 days	21,133	2,471
61 – 90 days	2,101	282
91 – 120 days	591	43
Over 120 days	17,009	7,742
	69,225	81,138
Retention payables	46,869	35,252
	116,094	116,390

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2000

11. CAPITAL AND RESERVES

There is no change in the capital during the period under review. The movements in reserves during the captioned period were the net loss attributable to the shareholders and exchange fluctuation reserve.

12. COMMITMENTS

- (a) Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	30 September 2000 (Unaudited) <i>HK\$'000</i>	31 March 2000 (Audited) <i>HK\$'000</i>
Within one year	2,464	3,871
In the second to fifth years, inclusive	12,365	12,365
	14,829	16,236

- (b) Capital commitments

	30 September 2000 (Unaudited) <i>HK\$'000</i>	31 March 2000 (Audited) <i>HK\$'000</i>
Capital commitments in respect of:		
Property development project contracted for	28,005	28,005
Contracted other capital commitments	42,295	42,295
	70,300	70,300

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2000

13. CONTINGENT LIABILITIES

The Group had the following contingent liabilities at the balance sheet date:

(a)

	30 September 2000 (Unaudited) <i>HK\$'000</i>	31 March 2000 (Audited) <i>HK\$'000</i>
Guarantees for performance bonds in respect of construction contracts undertaken by the Group	95,772	97,292
Long service payment obligations	9,499	8,972
	<u>105,271</u>	<u>106,264</u>

(b) On 11 August 2000, Yiu Wing Construction Company Limited ("YWCCCL"), a subsidiary of the Company, received a claim of approximately HK\$230 million from a contract employer in respect of a construction contract for liquidated damages and the rectification of alleged defective work caused by the Company.

In connection with the above claim against YWCCCL, on 8 November 2000, a writ was filed against the Company as first defendant and YWCCCL as the second defendant (the "Defendants") to call for the Defendants to provide security to an insurer for potential related performance bond payments of HK\$65.6 million under an indemnity provided by the Company and YWCCCL.

Based on legal opinion expressed by the Group's legal advisor, the directors are of the opinion that it is too premature to give any indication as to the likely outcome on conclusion in respect of the claim. In addition, the directors are of the view that the Group has valid defences against the claim and, accordingly, no provision for any potential liabilities has been made.

(c) In addition to the claim described in note 13(b) above, as at 30 September 2000, YWCCCL had received numerous claims from various parties, including suppliers and subcontractors for the alleged non-payment for materials supplied and an amount of HK\$17 million allegedly advanced to YWCCCL as other loans. The aggregate amount of such claims was approximately HK\$57 million where such claims are specified, there were, however, numerous claims with unspecified amounts. Of the claims with specified amounts totalling HK\$57 million, a provision of approximately HK\$36 million has already been made by the Group in the annual financial statements for the year ended 31 March 2000.

Counter-claims have been/will be commenced to obviate or limit the losses and damages suffered by the Group. The directors consider that, given the nature of the claims and damages under dispute and the preliminary status of these proceedings, it is not possible to estimate the eventual outcome of the claims with reasonable certainty at this stage. On the basis that the directors consider that the Group has valid defences against the claims and believe that it is not probable that any material loss will be suffered by the Group, no further provision has been made therefore in the interim report.

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2000

- (d) Pursuant to a sale and purchase agreement (amended and restated) (the "S&P Agreement") dated 29 September 1997 entered into between the Group and China Everbright International Limited ("Everbright"), the Group disposed of its 90% equity interest in Mowbary Resources Limited ("Mowbary") (the "Option Shares") to Everbright. Under the terms of the S&P Agreement, the Group guaranteed Everbright an annual return of US\$4.04 million (approximately HK\$31.5 million) over the tenure of the joint venture of the expressway project held by Mowbary commencing from 1 January 1998 to 30 June 2021 (the "Guarantee").

In the event of any breach of obligations by the Group, including but not limited to the Guarantee, Everbright has an option, within five years from the completion date of the S&P Agreement on 2 February 1998, to require the Company to purchase the Option Shares with related shareholders loans of Mowbary at the same consideration of US\$26.9 million made by Everbright.

Subsequent to the balance sheet date, upon disposal of the remaining 10% interest in Mowbary by the Group as detailed in note 16(b) to the interim report, the Guarantee was released accordingly.

- (e) High Court Action No. 1052 of 2001 ("1st proceedings")

On 7 March, 2001, one of the directors of the Company issued the 1st proceedings against the Group's subsidiary, Ocean Palace Restaurant & Nightclub Limited ("Ocean Palace"), claiming the sum of HK\$5.2 million in respect of an Employment Contract dated 30 March 1999. Ocean Palace is prepared to apply to the court to consolidate the 1st proceedings with High Court Action No. 10337 of 2000, an action instigated by Ocean Palace against the said director.

- (f) High Court Action No. 1249 of 2001 ("the 2nd proceedings")

On the 19 March 2001, the Industrial and Commercial Bank of China ("ICBC") issued the 2nd proceedings against King Pacific International Holdings Limited and others, claiming the sum of US\$3 million in respect of a guarantee dated 12 January 1998. An acknowledgement of service was filed on behalf of the Company on 3 April 2001, indicating its intention to defend the action. The Company will also be defending a summary judgment application made by ICBC on the 25 April 2001, a preliminary hearing for which has been fixed for the 14 May 2001.

14. PLEDGE OF ASSETS

At 30 September 2000, the following assets of the Group were pledged in favour of banks for banking facilities granted to the Group:

	30 September 2000 (Unaudited) HK\$'000	31 March 2000 (Audited) HK\$'000
Leasehold land and properties	23,929	24,453
Time deposits	3,142	63,546
	<u>27,071</u>	<u>87,999</u>

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2000

15. RELATED PARTY TRANSACTIONS

During the period, the Group paid rental expense of HK\$480,000 (1999: HK\$480,000) to a company in which Messrs. Cheung Yiu Wing and Cheung Wing Keung, Samuel, directors of the Company, are directors and/or controlling shareholders. The amount related to leasing of office spaces to the Group and was charged at a monthly amount of HK\$80,000 (1999: HK\$80,000).

16. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) On 6 November 2000, the Group entered into a sale and purchase agreement with Whole Earth Holdings Limited, an independent third party, to dispose of its entire issued share capital of a wholly-owned subsidiary, China City Development Limited ("China City"), for a cash consideration of HK\$5 million. The principal asset of China City is its investment in a property development project in the PRC which was fully provided for in the prior year's annual financial statements.
- (b) On 18 October 2000, Yiu Wing Liberty Properties Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Everbright to dispose of its remaining 10% equity interest in Mowbary to Everbright for a cash consideration of RMB6 million (approximately HK\$5.6 million), resulting in a loss on disposal of approximately HK\$11.3 million. The related provision has been made in the annual financial statements for the year ended 31 March 2000. The principal asset of Mowbary is an investment in an expressway in Xiamen, PRC. The transaction was completed on 26 October 2000.
- (c) On 3 November 2000, a private placement of 169,500,000 new shares of HK\$0.10 each in the Company was made to Whirlwind Holdings Limited, an independent investor, at a price of HK\$0.12 per share. The new shares rank pari passu in all respects with the then existing shares in issue. The proceeds of the new issue of approximately HK\$20.3 million, before the related issue expenses, were used to repay part of the outstanding loans of the Group and the remainder for working capital uses.
- (d) On 7 December 2000, a sale and purchase agreement was entered into between the Group and an independent third party to dispose of a leasehold property for a consideration of HK\$10.5 million, resulting in a loss of approximately HK\$28.1 million, before related expenses. The related provision has been made in the annual financial statements for the year ended 31 March 2000.

INTERIM RESULTS

BUSINESS REVIEW AND OUTLOOK

The Group recorded that the net loss from ordinary activities attributable to shareholders for the period from 1 April 2000 to 30 September 2000 ("Reporting Period") was HK\$27,634,000. The Board does not recommend payment of any dividend for the Reporting Period. Total turnover of the Group for the Reporting Period was HK\$307,773,000, decreased by HK\$1,006,619,000 compared with the corresponding period in 1999.

(1) APPOINTMENT OF THE RECEIVER OF THE COMPANY

Year 2000 was a challenging year for the Group. It is regrettable that the Group has been devastated by numerous contentious matters, which have caused serious setbacks to its normal business activities. On 24 February 2001, in High Court Action 10063/2000 (the "Action") – the High Court ordered that Mr. David Richard Hague and Mr. Rainier Hok Chung Lam of PricewaterhouseCoopers be appointed as the Joint and Several Receivers (the "Receiver") of the assets of the Company (the "Order") until trial of the Action or further order of the Court. The Receiver is to, among other things, collect, get in and receive the assets of the Company. The Action was instigated by Mr. Cheung Yiu Wing ("Mr. Cheung") as the plaintiff, against the Company and Mr. Jenson Cheng Chao Ming ("Mr. Cheng") as the defendants regarding, among other things, the Company's investment in the Wuhan Yujiatou Water Supply Factory. The Group filed an appeal against the Order on 10 March 2001.

(2) RESTRUCTURING OF THE BOARD

The Board has taken prudent and positive steps to turn the Group around and to protect the shareholders' interests. First of all, the Board has been restructured and new members who are independent to the parties of the Action were appointed. The Board further resolved to curtail the management responsibilities of any director who is involved in the Action. Indeed, Mr. Cheng, acting in the best interests of the Company, resigned on 17 February 2001 as chairman of the Board. Mr. Cheng however has remained as the managing director of the Company in this difficult period of time.

(3) BUSINESS REVIEW AND PROSPECTS

The Board has been communicating with several parties that have shown interest in the Group for the purposes of forming strategic alliance and partnership with the Group. The Board is very concerned about the overwhelming financial status of the Group and has reduced the operating costs and overheads as much as possible.

Despite all the obstacles encountered, the Board is determined and is working very hard to lead the Group to a turnaround and a brighter future.

INTERIM RESULTS

(4) SUBSIDIARIES CONTROLLED BY MR. CHEUNG YIU WING

Mr. Cheung has been holding shares in trust for the Group in several subsidiaries (the "Shares") since he was appointed a director of the Company. The Board has repeatedly requested and Mr. Cheung has consistently refused to transfer the Shares back to the Group. The Order, among other things, required Mr. Cheung to deliver up the trust documents to the Receiver but despite requests by the Receiver, Mr. Cheung has, at the date hereof, yet to deliver up such Shares or documents to the Receiver. The Group will continue to vigorously pursue Mr. Cheung on these. Two of these matters are before the Court under High Court Action No. 10593/2000 and High Court Action No. 10678/2000, both with Mr. Cheung as the defendant. Until the return of the trust documents, the Board is unable to obtain a clear and objective view on the operation of those subsidiaries which are still under Mr. Cheung's control.

The Board therefore, according to the First Report of the Receiver dated 2 April 2001, reports to the shareholders that the net liabilities of Yiu Wing Construction Company Limited as at 31 October 2000 is HK\$308.5 million; the net liabilities of Ocean Palace Restaurant & Nightclub Limited as at 31 January 2001 is HK\$7.85 million; other subsidiaries like Yiu Wing Holdings Company Limited and Smartgain Trading Company Limited, which are under Mr. Cheung's control, have no business activity and of no value to the Group, other than the shareholdings.

(5) MAJOR INVESTMENTS

The following is a brief report on the various investments which the Group has engaged in.

(A) Beijing World Park International Street (the "Project")

As mentioned in the last annual report, the Group successfully disposed of the Project on 6 November 2000. However, even with the assistance of the Receiver, the Board is unable to recover from Mr. Cheung the trust documents with respect to the share in Rohtak Investments Limited. The Board regrets that Mr. Cheung's delay in returning such trust documents to the Group has adversely affected and jeopardized the completion of the disposal of the Project. Such delay expose the Group to the risks of further litigation and financial loss. The Board is determined to obtain the return of all trust documents from Mr. Cheung as soon as possible.

(B) Hubei Changzhou Power Plant ("Power Plant")

As announced in the last annual report, the Group filed a writ to Superior People's Court of Hubei Province on 20 September 2000 to enforce payment of the compensation as ordered by the China International Economic and Trade Arbitration Commission (Shenzhen) ("CIETAC"). CIETAC ordered that, among other things, a compensation of RMB25 million be paid to Hubei Chang Zhou Power Development Company Limited ("JV Company") by the PRC joint venture partner i.e. China Chang Jiang Energy Corporation (Group) ("Chang Jiang Group"). An enforcement notice was also granted on 5 February 2001 by the court. A mandatory

INTERIM RESULTS

enforcement of judgement will be executed by the local officials. In the event that Chang Jiang Group does not or cannot pay RMB25 million as ordered, the JV Company shall be entitled to forfeit the 20 percent equity interest currently held by Chang Jiang Group in the JV Company. In the event of such forfeiture, the equity interest of the Group in the JV Company will be proportionally increased from 40 percent to 50 percent. The financial records of the Power Plant will then be furnished to the Court and an audit of the same can be made by the Group by that time.

Further, the Group has agreed with the Chang Jiang Group in the general meeting held on 14 March 2001 that both parties shall manage the Power Plant which the Board considers as a breakthrough in gaining control of the Power Plant.

(C) Guangzhou Minzu Guest House ("Hotel")

An agreement dated as at 31 January, 2001 was entered into by the Group with Fine Way Management Limited ("Fine Way") as the purchaser (the "Agreement") for the disposal of the Group's interests in the Hotel for a consideration of RMB110 million. One of the terms of the Agreement is that Fine Way is to take over the decoration contract entered into by the Group with Glory Decoration & Engineering Company ("Glory Decoration") for the decoration work of the Hotel. Fine Way is to refund to the Group HK\$15 million paid to Glory Decoration. Unfortunately, Fine Way rescinded the Agreement on 2 May 2001 on the ground that the Group was not able to complete the sale on a timely basis. A separate announcement will be made regarding the Agreement and the rescission thereof.

(D) Wuhan Yujiatou Water Supply Factory ("Water Factory")

As mentioned in the earlier announcements made by the Company, the Independent Board Committee of the Company ("IBC") submitted a report together with the legal opinions from the Hong Kong and PRC legal advisors of the Group to the Stock Exchange of Hong Kong on 14 April 2000 on the result of their investigation of the validity of the Group's investment in the Water Factory. The substance of the report is summarized as follows:

- Premium High Investments Limited, a wholly owned subsidiary of the Group, has acquired all the issued shares in and the shareholders' loan to Ocean Essence Holdings Limited ("Ocean Essence").
- Wuhan Ocean Essence Water Factory Company Limited ("Wuhan Ocean Essence") which is a duly registered sino-foreign cooperative joint venture company in PRC, still legally exists. The equity interest in Wuhan Ocean Essence is 90% beneficially owned by Ocean Essence as the foreign joint venture partner and 10% owned by San Zheng Infrastructure Development Company Limited ("San Zheng") as the PRC joint venture partner.
- Wuhan Ocean Essence legally owns the Water Factory and all its proprietary interests for a term of 30 years.

INTERIM RESULTS

- Ocean Essence, through its equity interest in Wuhan Ocean Essence, legally owns 90% equity interest in the Water Factory.
- The Water Factory exists.

Unfortunately, San Zheng still contends that Ocean Essence does not own 90 percent of the equity interest in Wuhan Ocean Essence. The application for arbitration submitted by the Group in Shenzhen against San Zheng, to enforce the rights and entitlements of Ocean Essence in Wuhan Ocean Essence, was accepted by the CIETAC on 29 December 2000. The arbitration commenced on 27 April 2001. The Group anticipates favourable results of the arbitration which is expected to be completed within the next few months as advised by the Group's legal advisors.

Recently a document has been brought to the attention of the Management which indicates that the ultimate beneficial owner of the 207,692,308 Shares in the Company (which were issued to China Fortune Limited as consideration of the Group's acquisition of the 100% equity interest in and all the shareholders loan to Ocean Essence) is San Zheng. The Board has submitted a copy of the said document to the IBC and CIETAC. A copy will also be submitted to the regulatory authorities of Hong Kong soon.

The Group has not commenced legal actions against the guarantors of the contractual obligations of the vendors of the entire issued shares in and the shareholders' loan to Ocean Essence for the reason that the guarantors cannot be found in Hong Kong nor in the PRC. However, the Group reserves all rights to take legal actions against the guarantors at any time.

(E) Beijing Intelligent Trico Card Production Company Limited ("Card Factory")

The Ministry of Foreign Trade and Economic Commission issued the joint venture certificate of the Card Factory on 18 January 2001. The Card Factory has also obtained the business registration on 30 March 2001 and will commence business as soon as the Group has paid the balance of its capital commitment of HK\$27.3 million to the joint venture. The Group has already invested more than HK\$65 million in the joint venture.

The Board's attempts at raising funds for the project are promising and it is confident that the Card Factory will produce a satisfactory return to the Group in the years to come.

(F) Xiamen Information Port Project

In the Company's announcement dated 11 January, 2001, the Board reported that on 20 October, 2000 the Company and The General Association of Xiamen (Hong Kong) Limited ("Association") entered into an agreement cancelling the investment agreement pursuant to which the Group was to acquire 15% equity interest in the Xiamen information port project ("Cancellation Agreement").

INTERIM RESULTS

The Cancellation Agreement provided that, among other things, the Association is to refund of the Group's deposit of HK\$15,000,000.00 ("Deposit") within 6 months from 20 October, 2000. A director of the Company acted as a guarantor of the Association for refunding the Deposit to the Company. The Board is now taking appropriate actions against the Association and the guarantor to enforce repayment of the Deposit.

(6) LIQUIDITY AND FINANCIAL RESOURCES

The liquidity of the Group during the Reporting Period was tight. It was due to two major reasons and these are:

- (A) the ability of the Board to dispose of the non-performing projects, such as the Beijing World Park International Street and the Guangzhou Minzu Guest House, was hindered by Mr. Cheung's refusal to return the trust documents involved; and
- (B) the difficulties encountered by the Group in the Power Plant and the Water Factory which should have produced a satisfactory return to the Group.

The Company's liquidity during the Reporting Period was continually financed by its former chairman, Mr. Cheng who has been providing personal loans to the Company. Mr. Cheng will continue to provide financial support to the Company.

(7) PROSPECTS

Since Mr. Cheung stepped down as chairman of the Company on 8 February, 2000, Mr. Cheung has issued numerous (about 100) letters through his solicitors to the Board making accusations and enquiring about certain projects of the Company which were entered into by the Company when Mr. Cheung was the chairman. Mr. Cheung has also instigated more than 6 actions against the Company and some of its directors. Such conduct of Mr. Cheung has largely contributed to the Group's current difficult state of affairs. Significant amounts of management time, talent and energy as well as the Company's financial resources have been used, which could have been better employed in turning the Group around.

It is the Board's obligation to maintain its independence, integrity, and transparency which the restructuring of the Board has ensured. The Board believes the Group has good commercial potential and prospects now that the Group has regained active management of the Power Plant and approvals of the set up of the Card Factory. The Board is negotiating with potential investors and strategic partner for restructuring and financing the Group. With the support and trust of the shareholders, the Board expects normal business of the Group to resume and the shareholders' confidence to be restored soon.

INTERIM RESULTS

(8) COMPLIANCE MATTERS

(A) Repurchase of Shares

The Company had not purchased nor redeemed any of its securities during the Reporting Period.

(B) Compliance of Code of Best Practice

None of the directors is aware of any information that would reasonably indicate that the Company was not, for any part of the Reporting Period, in compliance with any provisions of Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited.

(C) Interests in the Company's Shares

Details of interests in the shares in the Company or any associated corporation at the end of the Reporting Period for each of the directors and chief executive or the spouse or children under 18 years of age of any of such director or chief executive as recorded in the register required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company were as follows:

Shares

Name of director	No of Shares			
	Personal	Family	Corporate	Other
Cheng Chao Ming, Jenson	2,326,000	–	123,470,136 (Note 1)	–
Cheung Yiu Wing	149,388,599	–	–	–
Name of parties (other than Directors)				
China Fortune Limited	207,692,308 (Note 2)			
Lang Jing	207,692,308 (Note 2)			

Notes:

1. Mr. Cheung Chao Ming, Jenson is the directors and has controlling interest in the issued share capital of Changjiang Power Development (HK) Co Limited which holds 43,469,136 Shares of the Company. Mr. Cheng is also interested in 50% of the issued share capital of Intelligent Trico Investment Holdings Limited which holds 80,001,000 Shares of the Company.
2. These shares refer to the 207,692,308 Shares held by China Fortune Limited in which Mr. Lang Jing deemed to have interest therein (this note reflects the record of register kept by the Company only).

INTERIM RESULTS

REVIEW BY THE AUDIT COMMITTEE

This unaudited interim report for the Reporting Period has been reviewed by the Audit Committee of the Company.

By Order of the Board
Cheng Chao Ming
Managing Director

Hong Kong, 8 May 2001