

## **BUSINESS REVIEW AND OUTLOOK**

During the six months ended 30 June 2001, China Everbright International Limited (the “Company”) and its subsidiaries (the “Group”) recorded an unaudited consolidated turnover of approximately HK\$150,394,000 which represented a decrease of 40 per cent. over that of last period. The unaudited loss attributable to shareholders was approximately HK\$1,772,000, representing a decrease of 93 per cent. over that of last period, mainly due to the write back of provision for interest in Hong Kong Construction (Holdings) Limited (“HK Construction”). The Group has also prudently made provision of approximately HK\$24,475,000 on some non-performing investments. The directors believe that such provision allows the Group to better reflect the carrying value of these investments as at 30 June 2001.

### **Timber Business**

During the period, the operation of the timber business was hampered by the severe price competition of timber products in the PRC market arising from the global economic slowdown. This resulted in the drastic decline in turnover. Facing this competitive operating environment, the Group has realigned its business strategies and adjusted the product mix in order to mitigate the negative impact on timber business. Meanwhile, the Group has implemented various cost control measures including the use of more cost effective materials and reduction of head counts in order to maintain its competitiveness. Due to the sluggish market demand for decoration wood, the management has prudently made a provision of HK\$18,000,000 for the impairment of fixed assets of a branch which has been temporarily shut down. The management will monitor the market closely and explore opportunities to restructure the timber assets to achieve better returns to shareholders.

### **HK Construction**

Due to the slowdown of the construction sector in Hong Kong, HK Construction has continued to make a loss and experienced liquidity problems since 1998. For the six months ended 30 June 2001, the Group’s attributable loss was HK\$95,235,000. On 11 June 2001, HK Construction entered into a formal standstill agreement with its banks. To align with the Group’s intention to restructure and streamline its existing business, the Group decided to reduce its investment in HK Construction.

On 15 June 2001, the Group entered into a conditional agreement with Shanghai Construction (Group) General Corporation (“Shanghai Construction”), a state-owned enterprise established under the laws of the PRC, in relation to the disposal of 114,000,000 shares in HK Construction, representing approximately 22.45 per cent. of its issued share capital for a cash consideration of HK\$189,240,000. On 20 June 2001, the Group further sold 3,000,000 shares in HK Construction to Vickers Ballas Hong Kong Limited for a cash consideration of HK\$3,570,000. After the completion of the said disposal transaction with Shanghai Construction on 6 July 2001, the Group held approximately 10 per cent. interest in HK Construction as long term investment.

**Property development and investment**

Sino Villa Holdings Limited holds a four-storey commercial property in Shenzhen Zhongshan Garden. All units of the property were leased and the Group enjoyed a steady annual rental income and cash flow. During the period, the property's car parking area was sold back to China Everbright Holdings Company Limited ("CEH"), the ultimate holding company, at an agreed price of HK\$9,678,000 since the relevant ownership registration certificate could not be obtained from the government. The transaction constituted a connected transaction as defined by the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and was announced by way of a press announcement by the Company on 16 March 2001.

The Group owns 25 per cent. interest in Shanghai Kerry Everbright City which comprises of two towers for office and residential use and a shopping mall. The sales and leasing for this property progressed well due to the improving climate in Shanghai property market during the period. As at 30 June 2001, gross floor area of 8 per cent. in Tower I were sold and 76 per cent. were leased whereas 85 per cent. of Tower II were sold and 7 per cent. were leased. The Shopping mall was 100 per cent. leased out.

The Group also holds 15 per cent. interest in Shanghai Trade Square & International Apartments which continues to generate steady rental income. As at 30 June 2001, the total sales and leased areas for this property was 97 per cent..

**Infrastructure investment**

Shenzhen Mawan Power Co. Ltd continued to contribute positive returns to the Group. During the period, it generated 1.49 billion kilowatt hour of electricity and contributed profits of approximately HK\$22,361,000 to the Group.

The construction of the Fuzhou Qingzhou Bridge progressed well and it is expected to be completed in early 2002. During the period, the Group recorded a profit of HK\$7,657,000 from this project.

**Outlook**

The operating environment in the second half of the year is expected to remain challenging due to the slowdown of the global economy. The Group will continue to streamline its existing business operations and lower its debt level. As mentioned in last year's annual report, the Group is trying to develop a green environment business with sustainable use of natural resources and environmental protection. The Group will carefully explore and appraise new business opportunities which are in line with the Group's strategies and assure the existence of long term benefits to the shareholders. With much experience of doing business in China, the Group is well positioned to benefit from the upcoming opportunities arising from China's accession into the World Trade Organization and Beijing's successful bidding to host the Olympic Games in 2008.