



REVIEW OF OPERATIONS

The first half of 2001 saw the downturn of the United States economy. In its bid to recover, Hong Kong was affected by factors of the world at large and suffered a marked slowdown in its economy. However, having treaded the steps of the United States in its repeated slashing of interest rates, coupled with the intense competition among banks, mortgage interest rates in Hong Kong fell to a thirty-year low, which helped to stabilise the property market of Hong Kong. As internal demand of the PRC has been successfully boosted, the economy of the PRC continued its strong upward trend, which over time has become a powerful driving force of Hong Kong's economy. In the face of the volatile market conditions, the Group adheres firmly to its proactive but prudent development policy. In the first half of this year, it achieved good operating results both in Hong Kong and the PRC. Its overall business continued to move forward healthily.

I. Property Development

1. Property sales

For the six months ended 30th June, 2001, the attributable properties sold by the Group amounted to 1.84 million sq.ft.. With an aggregate turnover of HK\$1.87 billion, it was an increase of 46% over the corresponding period last year. The Group's sales of properties in a number of cities in the PRC were well-received as a result of its reputable brand name. Phase I of Zhong Hai Xin Yuan in Shanghai, which were ready for occupation during the period, were 100% sold. Phase II of Zhong Hai Xin Yuan, which will be ready for occupation in the second half of the year, were approximately 80% sold. A2-4 of Phase I in Zhong Hai Ming Du in Guangzhou were approximately 70% sold. The launching of Zhong Hai Zijin Yuan in Beijing went smoothly. In the face of the weak property market in Hong Kong, the Company took advantage of the window of opportunity provided by the cut in interest rates to sell the remaining units of Nerine Cove, using a flexible promotion strategy. As for the office premises of Site C of the Olympic Station (the Group has a 10% interest), the entire block was sold in July.



2. Properties completed and ready for occupation during the period

The Group had two property development projects completed and ready for occupation during the period.

District	Name & address of the property	Usage	Percentage of interest attributable to the Group
Hong Kong	(a) Park Avenue Kowloon Inland Lot No. 11090, Site B of Olympic Station of Airport Railway	Residential	10%
Shanghai	(b) Zhong Hai Xin Yuan, Phase I 111 Qin Zhou Nan Road, Xu Hui District	Residential	99.5%

3. Properties to be completed and ready for occupation during the second half of 2001

The Group has four property projects due for completion in the second half of 2001.

District	Name of the project	Intended Use	Percentage of interest attributable to the Group
Shanghai	(a) Zhong Hai Xin Yuan, Phase II	Residential	99.5%
Guangzhou	(b) Zhong Hai Ming Du, Phase I A2-4	Commercial/ Residential	100%
Beijing	(c) Zhong Hai Zijin Yuan	Residential	100%
Hong Kong	(d) Park Avenue (shopping arcade)	Commercial	10%



4. Land acquired during the period

During the period, the Group acquired two development sites in the PRC, which increased its gross floor area for development by 3,310,000 sq.ft.. The sites includes Zhong Hai Lai Yin Garden located at the river side of Huang Pu River in Xu Hui District, Shanghai, of which an area of 2,760,000 sq. ft. will be available for development.

District	Name & address of the project	Intended Use	Percentage of interest attributable to the Group
Shanghai	(a) Zhong Hai Lai Yin Garden 1270 Long Wu Road, Xu Hui District	Residential	99.5%
Shenzhen	(b) Yan Tian Gang Phase I Northwest of Yan Tian Gang Main Road	Residential	60%

In the middle of the year, the Group has properties under development of approximately 23,000,000 sq.ft. They are mainly located at the prime sections of major cities of the PRC. At present, negotiations to acquiring a number of sites are under way. It is the Group's direction to increase its high quality land bank prudently for short, medium and long term development so as to lay the solid foundation for furthering its property operations in the PRC with economies of scale and brand name.



5. Newly acquired land bank so far in the second half of the year

Up to the date of the announcement of results, the Group has acquired sites in Shanghai and Shenzhen respectively, which further increased its land bank by 1,600,000 sq.ft.

District	Name & address of the project	Intended Use	Percentage of interest attributable to the Group
Shanghai	(a) He Ping Garden, Phase II Junction of Kong Jang Road and Dalian Road	Residential	95%
Shenzhen	(b) Zhong Hai Yang Guang Zhong Lu Garden, Phase III Qianhai Road, Nan Shan District	Residential	67%

II. Construction and Contracting Business

The Group has taken aggressive steps in the highly competitive construction market. For the first half of the year, the Group has obtained 17 contracts with total value amounting to approximately HK\$2.1 billion. Significant progress was also made in the PRC, where the Group was awarded with three construction contracts. In the middle of the year, there were 68 projects under construction with contract value of HK\$17.8 billion attributable to the Group, of which the outstanding works amounted to HK\$11.5 billion. The Group attaches great importance to the quality of construction work, safety, environmental protection and management standard of the Group.

During the period, the related operations of Hong Kong Concrete Company Limited, Shenzhen Hailong Cement Co. Ltd. and building material company in which the Group has invested were running smoothly and bringing in profit to the Group.



III. Infrastructure Investments

The Group has invested in a number of infrastructure projects in the PRC, which continue to bring in steady streams of revenue. During the period, the Group obtained the consent of its joint venture partner, whereby its investment in Huan Cheng Road, Gulian, Guangxi was reduced by US\$7.5 million.

IV. Property Investments and Management

During the period, rental properties of the Group amounted to over 2 million sq.ft.. Occupancy of China Overseas Building and Horae Place Shopping Mall in Hong Kong were over 95%, and that of the office space in China Overseas Building in Shanghai and Dongshan Plaza in Guangzhou were over 90%. With the increase in activity in the commercial market in the PRC, nearly 30,000 sq.ft. of floor area in Dongshan Plaza in Guangzhou were sold during the period.

During the period, the Group sold its entire interests in Zhonghai Property Managing (Shenzhen) Co., Ltd. to Shenzhen Zhong Hai Investment Management Co., Ltd. and Shenzhen Xifengchun Consultancy Service Co., Ltd. at a consideration of HK\$8 million. At present, the Group's property management business mainly focuses on Hong Kong, Guangzhou and Shanghai and is progressing rapidly.

V. Investments in Emerging Industries

In recent years, emerging hi-tech industries in the PRC have seen fast development. A large number of technological research findings with commercial applications are awaiting the support of venture capital institutions. As such, investments in venture capital has a lot of room for growth. At present, the Group is actively participating investment in hi-technology and emerging industries, with the objective of achieving high value-added development. In the first half of the year, 中海創業投資（深圳）有限公司 was established in Shenzhen with a registered capital of US\$29.8 million. It is specially established to take on high growth investment projects. Following the Group's success in investing in China Digital satNet, a satellite broadband digital communication business, and in Chinabidding, the Group contributed HK\$4.49 million (owns as to 21.8%) to establish 哈爾濱國海星輪有限公司 jointly with 信泰珂科技發展中心 and 哈爾濱星輪減速器公司. This venture invests in manufacturing of machine decelerators, which is an innovative product.