

REVIEW OF OPERATIONS

Investment properties

During the first half of 2002, the property rental market in Beijing remained stable. Rental rates for medium-to-high-end service apartments were in par with that of the last year and occupancy rates slightly decreased. The rental market of grade A offices remained steady while experienced slight growth.

In light of the stable market, the Group conducted detailed market research and analysis of the investment property market for deploying series of strategies. Firstly, while retaining long-term clients, it was also actively exploring the market of short-term guests in order to build up a diversified customer base comprising long-term, short-term, business and walk-in guests. Secondly, the Group continued the redevelopment, consolidation and redeployment of its current assets and different positioning, sales and marketing strategies were implemented. During the first half of this year, operating profit of investment properties increased by 31.0% when compared to the same period of the last year and showed booming growth trend.

Operation of investment properties

Upon the launch of its "Hui Yuan International Property Zone", which combines apartments, offices and club facilities in one, Hui Yuan International Apartment received over-whelming response from the market. New tenants from Japan and Korea in the first half of the year accounted for 32.0% of the total number of tenants. The average occupancy rate of Hui Yuan International Apartment increased by 4.0 percentage points over the corresponding period of last year. The period of tenancy renewal was 20 days longer on average as compared to that of last year. The rental rates remained unchanged. Average occupancy rate of Hui Yuan Apartment decreased by 2.7 percentage points but its rental rates increased by 4.0% when compared to the corresponding period of last year.

With its competitive pricing for quality service, the service apartments of the Group performed satisfactorily. Average occupancy rate of the Asian Games Village Hotel was 86.3%, increased by 13.3 percentage points from the corresponding period of last year. Average rental rate also increased by 10.6%. The service apartment (originally Block N of Hui Yuan International Apartment) also achieved outstanding performance with a constant occupancy rate of 100% since its opening in February this year.

The market for office rental continued to improve. Hui Xin Office recorded an average occupancy rate of 97.8%. Rental rates remained unchanged while the rate of renewed tenancy increased by 4.0% as compared to the previous year. Average occupancy rate of Hui Bin Office for the first half of the year was 89.0%, decreased by 8.6 percentage points from the corresponding period last year. Nevertheless, with enhanced marketing efforts, the Group managed to boost the occupancy rate up to 92.0% at the end of June. The average room rate was 2.8% higher compared to that of the last year. A total of 162 conferences and exhibitions were held in Beijing International Convention Centre, with a utilization rate of 84.0%, in the first half of 2002. Occupancy rate of 99.0% for offices was recorded. Despite a slight decrease in the rental rates, the overall performance of the convention centre has improved in general from the same period of last year.

Redevelopment of properties

In the first half of the year, the Group continued its redevelopment project of its investment properties in the Asian Games Village to upgrade its facilities. Currently, large apartments outnumber small apartments in the Group's commodity housing portfolio. In recognition of the strong market demand for smaller apartments, the Group conducted alteration works of its existing large apartments into smaller ones. By the end of June, a total of 176 suites have been redeveloped. Average occupancy rate increased by 15.0 percentage points after such redevelopment. The Group also completed the reconstruction of the plaza of Beijing International Convention Centre. At present, redevelopment of the East Wing of Beijing Continental Grand Hotel, which was the focus project of the Asian Games Village, was under progress. The redevelopment of Beijing Recreation Centre into Bei Cheng Building has been approved by the government authority and preliminary work was underway.

Development properties

In the first half of 2002, implementation of favourable policies has spurred both supply and demand of real estates in Beijing. Sale of different commodity housing increased by 13.6% when compared to same period of last year with decreased growth rate.

During the transitional period when apartments of the Group were sold and its new flats were under construction, the floor area of saleable apartments reduced by 15.9% in the first half of the year when compared with the corresponding period of the previous year. In the first six months of 2002, 13,746 square metres of commodity houses were sold, down by 5.6% when compared to the corresponding period of last year. Nonetheless, the proportion of the floor area of commodity houses sold over that of the total saleable commodity houses increased slightly over the same period of last year.

A total of 3,981 square metres of commodity flats of Green Garden Phase I were sold, while 2,075 square metres of Green Garden Phase II were pre-sold since its launch on 28th May, 2002. Total floor area of Green Garden under construction amounted to 214,000 square metres with a completed floor area of 29,000 square metres for the first half of the year. The Group has also completed the removal and redevelopment project of Zone A of Green Garden Phase II and the design and planning of post-removal projects.

Beijing North Star Real Estate Development Company Ltd. completed the sales of Shi Ji Cun Estate. The environment enhancing project of Kerrie Plaza was also completed, following which a total of 6,099 square metres were sold within two months. As for the Jiang Zhuang Hu Garden Villas, construction of eight blocks of villas with an aggregate area of 7,024 square metres commenced on 29th April, 2002. Project adjustment and strategic sales planning for the Eastern Suburban project were also underway.

Retail operation

Aggregate sales of consumer products in Beijing recorded a growth of 5.3% for the first half of the year while expenditure in automobile, construction materials, food and beverage increased rapidly. Retail market experienced a downturn in general. Sales in Bei Chen Shopping Centre of the Group amounted to Rmb563,281,000, down by 12.2% as compared to the same period last year. Operating profit of Rmb35,113,000 was recorded, representing a decrease of 4.3% over the same period of last year.