MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Primary and Secondary Property Markets in Guangzhou Continued to Improve

Total sales volume of the Guangzhou primary residential market in the first half of 2001 was 2.37 million sq. meters and was up by 3.5 per cent compared with same period in 2000. Average selling price was approximately Rmb4,965 per sq. meter which was up by 3.89 per cent compared with same period in 2000, and continued its gradual uptrend. Transactions in the secondary market were exceptionally active. Volume was up substantially by 100 per cent to 960,000 sq. meters and price adjusted downward by 15.9 per cent compared with same period in 2000 to an average of Rmb3,854 per sq. meter.

These figures indicated that both the primary and secondary residential markets in Guangzhou remained active as underpinned by improving affordability. The Group believes that the property market in Guangzhou has turned around and will have huge growth potential due to a low level of private home ownership, satisfactory rental yield, rising affluence and a fast growing population which is already close to 10 million.

Guangzhou office market also started to recover in the first half of 2001 after several years of consolidation. Improving economic environment has resulted in increasing demand for offices. Transaction volumes picked up by 23.96 per cent to 100,900 sq. meters in the period, which was larger than supply and has resulted in reduction of inventory. Vacancy rate has slipped by 18 per cent while price has risen by 1.6 per cent to an average of Rmb10,527 per sq. meter.

Market Positioning and Sales

The Group has accumulated a sizable land bank of approximately 800,000 sq. meters on an attributable basis in urban Guangzhou. The Group's market positioning is to concentrate on development of residential properties located in urban area such as Haizhu District and Zhujiang New Estate. The Group focuses on development of middle and mass market properties with average selling price ranging between Rmb4,000 and Rmb8,000 per sq. meter. Development of suburban residential projects and urban office projects will be selective.

The Guangzhou residential market remained active and competitive in the first half of 2001 and the Group continues to strengthen efforts in marketing. For example, monthly thematic marketing activities were organized for Galaxy City which is a high end project with intelligent management system and 24 hours distilled water supply. The gardening of green area and furnishing of show flats were speeded up. Public transport and supermarket services were organized to promote sales. Based on such efforts, 30 per cent of all units in Galaxy City was pre-sold and accounted for 56 per cent of the Group's total sales (38,447 sq. meters), which was up by about 60 per cent compared with same period in 2000. The Group ranks one of the top 20th in terms of sales volume amongst major property developers in Guangzhou.

Apart from stepping up its marketing efforts, the Group continues to reduce costs through tendering system which was extended from construction works to include sourcing of construction materials, environmental, finishing and gardening works. This tendering system has contributed to cost control and quality improvement.

The Group believes that cooperation with its local partner, Guangzhou City Construction and Development Holdings Ltd. which is one of the most reputable developers in Guangzhou, could facilitate cost reduction and brand building. Apart from location, brand name and aftersales service are the most important success factors in the property business. The Group has and will continue allocating resources in these aspects. According to a survey of customer's satisfaction, the Group achieved 95 per cent satisfaction level from the residents of Greenland Garden Phase I.

To step up development efforts, the Group increased total gross floor area of joint venture projects under construction to 603,717 sq. meters in the first half of 2001 which was up by 5.0 per cent compared with same period in 2000. In the second half of 2001, major projects to be offered for sale will include Galaxy City, Greenland Garden Phase I, Jiang Nan Estate Phase III 3-11 and Dalian Yue Xiu Plaza.

An extension of Guangzhou Metro to connect the eastern Zhu Jiang Estate and the southern Panyu suburban area is under planning and will start construction by the end of this year. Such development is most beneficial to the Group and will increase the value of its land bank located at Zhu Jiang Estate. The Guangzhou Municipal People's Government has recently tightened regulations of property market. Developers must complete two third of superstructure to qualify for preselling the properties and land premium for acquiring land in land auction must be fully paid within 24 months. The Group believes that such policies would benefit established developers with strong land and financial resources.

Guangzhou Rental Property Outperformed Hong Kong

The Group has investment properties both in Hong Kong and Guangzhou. Aggregated rental income of the Group's investment properties in Hong Kong remained steady in the first half of 2001. The Group expects the rental market in Guangzhou will continue outperforming Hong Kong in the second half of 2001.

Newsprint Business Performed Strongly

Guangzhou Paper Limited ("Guangzhou Paper") performed strongly in the first half of 2001. Owing to full operation of a new production line to increase newsprint production capacity to 290,000 tonnes per annum, Guangzhou Paper was able to satisfy the rising demand from major newspapers in Guangdong Province on time. In the first half of 2001, Guangzhou Paper sold 134,500 tonnes of newsprint which was 47.94 per cent higher than same period in 2000. Average newsprint price was higher but total production cost was reduced because prices of raw materials including recycled paper and chemical wood pulp eased in the first half of 2001. The plant has also implemented various cost control measures including reduction of water and pulp consumption. A new in-house electricity supply system mitigated cost pressure of the higher priced external electricity supply.

In the first half of 2001, the plant continued to maintain the biggest market share in the locally produced newsprint market and was ranked the top in Mainland China ("China") in terms of sales volume. Although newsprint price is expected to follow international market and ease in the second half of 2001, the Group expects the plant's full year performance will remain steady given its location in the fast growing southern China market.

Cement Sales in Guangzhou Expanded

In the first half of 2001, aggregate sales volume of cement and clinker of China Century Cement Limited ("CCC"), the cement subsidiary of the Company joint ventured with German cement group Heidelberger Zement, increased by approximately 17.6 per cent to approximately 1.2 million tonnes compared with same period in 2000 due to capacity expansion. Unit manufacturing costs of cement per tonne decreased due to bulk purchase discount on raw materials, lower fixed cost, lower off peak electricity rates and higher efficiency. These offset a lower average selling price of cement which also benefit the downstream business. In the period, sales volume of ready-mixed concrete in Guangzhou increased to 167,000 cubic meters while production cost was reduced because cement is its raw material.

With progress of construction of major infrastructure projects such as the new Guangzhou International Airport in the second half of 2001, performance of the cement business in Guangzhou is expected to remain satisfactory while the Hong Kong market will continue in consolidation due to slow down of property and government projects.

Toll Road Business Affected by Temporary Factors

As traffic volume growth was deterred by certain road maintenance works around Guangzhou City for preparing the Ninth National Games, prohibition of overloaded trucks travelling in the remote regions of Guangdong Province, and a firm oil price, GZI Transport Limited ("GZI Transport"), the toll road subsidiary of the Company, experienced decline in profit attributable to shareholders of 9.1 per cent to HK$132.46 million in the first half of 2001. The Group believes that the toll road business was affected by temporary factors only and traffic volume growth will resume in 2002.

Future Strategy and Prospects

Looking ahead, the Group intends to expand business of property development in Guangzhou which will have great potential with the continuous economic development of China, particularly in Southern China. The Group's goal is to develop as a leading property developer in this region. In addition, management of other existing businesses will be strengthened to deliver satisfactory returns to shareholders. Although the external economic environment is experiencing some uncertainties, the Group believes that economic performance of China, especially Southern China, will remain relatively resilient.

FINANCIAL REVIEW

Highlights of Results

In the first half of 2001, the Group's cement and newsprint businesses both performed satisfactorily due to expansion of capacity and sales which offset lower profits from the toll road and property businesses. The toll road business was affected by temporary factors such as prohibition of access of overloaded trucks by local governments. The property business achieved higher sales area but performance was affected by changing sales mix of different priced properties.

In the first half of 2001, the Group's turnover grew to HK$1,734,760,000, representing a 22 per cent increase mainly driven by the expanding cement and newsprint businesses. Overall gross profit increased by 33 per cent to HK$641,941,000 due to decline of certain raw material prices and higher efficiency of the industrial businesses. Although selling, distribution, administrative and other operating expenses were increased due to overall expansion of the Group's businesses, profit attributable to shareholders amounting to HK$46,420,000 has increased by 22 per cent compared with the same period in 2000.

Interim Dividend

The Board of Directors has resolved not to declare any interim dividend for 2001 (2000: nil).

Liquidity and Capital Resources

The Group maintains a stable and comfortable financial position. As at 30th June 2001, the Group had bank deposits, cash and bank balances of approximately HK$1,726 million, pre-dominantly in Rmb and the balance of 46 per cent in US dollars, HK dollars and other foreign currencies.

As at 30th June 2001, the Group had bank borrowings excluding bank overdraft ("Bank Borrowings") and convertible bonds outstanding of approximately HK$3,541 million and HK$545 million respectively (collectively "Total Borrowings"). The net increase of Total Borrowings was HK$387 million compared with the last annual balance sheet date.

As at 30th June, 2001, the Bank Borrowings was mostly denominated in US dollars and HK dollars and the balance of 34 per cent in Rmb. The convertible bonds were denominated in HK dollars. The following table shows the repayment schedule of the Bank Borrowings and convertible bonds:

	Repayable within				
	one year	one to two years	two to five years	over five years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank Borrowings	1,882,536	1,015,824	641,844	1,197	3,541,401
Convertible bonds	95,000	249,450	200,623	–	545,073
Total Borrowings	1,977,536	1,265,274	842,467	1,197	4,086,474

Approximately 53 per cent of the Bank Borrowings will be repayable within one year. The management is confident that Bank Borrowings will be refinanced. Approximately 17 per cent, 46 per cent and 37 per cent of the convertible bonds are redeemable in one year, one to two years and two to five years respectively. The convertible bonds redeemable in one year were issued by GZI Transport. On maturity, those bonds which have not been converted into ordinary shares of GZI Transport at a price of HK$2.0424 per share are to be repaid at their principal amount with accrued interest. All other convertible bonds redeemable in one to two years and two to five years were issued by the Company. On maturity, those bonds which have not been converted into ordinary shares of the Company at a price of HK$0.76 and HK$0.6168 per share respectively are to be repaid at 105 per cent of their principal amount with accrued interest. Approximately 41 per cent of the Bank Borrowings were secured and the rest were unsecured.

Capital Commitments and Expenditures

The Group's capital commitments were HK$1,924 million in total as at 30th June 2001. These capital commitments over the next few years are mainly for the addition of fixed assets, toll roads and properties under development; and also for the capital requirements in associated companies and jointly controlled entities.

In February 2001, the Group completed the acquisition of the remaining 49 per cent interests in Xian Expressway. This acquisition was mainly financed by a HK$170 million five-year term loan raised in 2001 and secured by the Group's interest in Xian Expressway.

Treasury Policies

The Group's overall treasury and funding policy is that of risk management and liquidity control. Bank balances are generally placed as short term fixed rate deposits in bank accounts in Hong Kong and China. No fund is placed in non-bank institutions or invested in securities. The management believes that the steady inflow of HK dollars, Rmb, and US dollars funds generated and/or repatriated from the Group's subsidiaries, associated companies and jointly controlled entities in Hong Kong and China are sufficient to meet the Group's short to medium term Rmb, US dollars and HK dollars borrowings, finance costs and dividend payments.

Since the Group's principal operations are in China and most of the income is denominated in Rmb, the management is aware of possible exchange rate exposure. As a hedging strategy, the management emphasizes on mainly using Rmb borrowings to finance the Group's Rmb investments. Equity and debt financing in foreign currencies will also be used selectively.

Capital Structure

The following table summarises the components of the Group's capital structure:

	30th June 2001		31st December 2000	
	HK$'000	***%***	*HK$'000*	*%*
Shareholders' equity	**6,571,933**	**62**	6,485,546	64
Bank Borrowings	**3,541,401**	**33**	3,117,603	30
Convertible bonds	**545,073**	**5**	581,473	6
Total Borrowings	**4,086,474**	**38**	3,699,076	36
Total capitalization	**10,658,407**	**100**	10,184,622	100

The Group continues to maintain a stable and healthy capital structure. Interest coverage was 3.9 times for the period ended 30th June 2001.

Pledge of Assets

There is no significant change in the pledge of assets since the last annual balance sheet date.

Contingent Liabilities

There was no significant change in contingent liabilities since the last annual balance sheet date to 30th June 2001. However, in August 2001, a guarantee provided by GZI Transport of Rmb1,020 million (approximately HK$953 million) was cancelled by the creditor bank, thereby releasing this particular obligation of the Group.

Employees

As at 30th June 2001, the Group had approximately 12,780 employees of which approximately 12,200 employees were primarily engaging in the management of toll roads, development of property projects and the operations of the six cement and paper factories. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted share option schemes which award its employees according to the performance of the Group and individual employees.

By order of the Board
Liu Jinxiang
Chairman

Hong Kong, 19th September 2001