



BUSINESS REVIEW, DISCUSSION AND ANALYSIS, AND OTHER INFORMATION

The Group's unaudited net profit attributable to shareholders for the six months ended 30 June 2001 was approximately HK\$128,734,000 (2000: unaudited net loss of approximately HK\$270,223,000), representing an increase of about HK\$398,957,000 over the corresponding period last year. The results have already taken into account the provisions of approximately HK\$132,271,000 which were mainly in respect of provisions relating to properties held for sale and properties under development in Mainland China (HK\$79,316,000), impairments in values of fixed assets (HK\$15,118,000), provisions for doubtful debts (HK\$18,801,000) and deficit on revaluation of an investment property (HK\$15,000,000).

During the period under review, the Group has continued to take steps implementing its corporate reengineering with focus on its key businesses. Every effort has been made by the Group and all its members to control cost, maximise revenue and achieve reforms in marketing and assets utilisation and thereby to improve the profitability, competitiveness and overall quality of the Group's businesses. These measures have laid good foundation upon which the sustainable development of the Group as a whole can be built.

For the first six months of 2001, many of the Group's businesses have recorded satisfactory results. These include our utilities (Dongshen Water Supply Project (the "Water Project")), properties (Riverside Garden and Teem Plaza in Guangzhou), malting and tannery businesses. However, our brewery business was adversely affected by keen competition in Shenzhen. Also because of the wet weather and the resulting greater reliance on hydro electricity, the sales and returns from our Shaoguan thermal power plant has reduced substantially.

The Group has continued to press on with its businesses and asset restructuring. Significant transactions in that regard during the period under review are as follows:

- In January 2001, the Company disposed of to GDH Limited its entire 70% equity interest in GD Shenzhen together with a receivable of approximately RMB1,420,000 due from GD Shenzhen to the Company for a total consideration of HK\$206,000,000. The disposal was approved by the Company's independent shareholders at an extraordinary general meeting held in February 2001 and was subsequently completed in April 2001.
- In February 2001, the Company disposed of its entire 57.16% equity interest in GD Building to an independent third party for a consideration of approximately HK\$31,483,000. The transaction was completed in March 2001.
- In February 2001, the Company has contracted for the disposal of its equity interest in and its shareholder's loans to Zhongshan Power (Hong Kong) Limited ("ZPHK"). The consideration, including the right for the Company to receive certain guaranteed profits, is approximately US\$16,760,000. In addition, as a condition precedent for the completion of the sale, 中山火力發電有限公司 ("Zhongshan Power Plant") the co-operative joint venture held by ZPHK is required to fully repay all its indebtedness to Yue Sheng together with interest. The transaction is still in progress.
- In February 2001, Guangdong (H.K.) Tours Company Limited, a wholly owned subsidiary of the Company, disposed of its hotel properties and investment properties to an independent third party at a consideration totalling HK\$300,000,000. The transaction will be completed in November 2001.
- In March 2001, the Company entered into a preliminary agreement with an independent third party for the disposal of 70% equity interest in Guang Dong Nanhua Cement Limited held by Guangdong Construction Materials (International) Limited ("GCM") for a total consideration of RMB30,000,000. GCM, which is a wholly owned subsidiary of the Company, has been deconsolidated from the Group's financial statements in prior years. The transaction is however still in progress.



In order to rationalise the Group's debt structure, the Group is helping its members to seek refinancing of their debts on more favourable terms. Thus far we have successfully arranged such refinancing with the PRC banks for one of our non-wholly owned subsidiaries and a jointly controlled entity. Such refinancing would result in substantial interest-savings to the Group.

A summary of the performance of the Group's major businesses during the period under review is as follows:

Utilities

Due to wet weather conditions and the resulting government's policy of giving priorities to hydro electricity, sales of electricity generated by the Shaoguan Power D Plant, a thermal power plant, drastically reduced to approximately HK\$204,000,000, a decrease of approximately 23% as compared to the same period last year. Sales of electricity by the Meixian Power Plant B amounted to approximately 724 million kwh (2000: approximately 673 million kwh) and provided a stable income to the Group. As the Group has already entered into an agreement for the sale of its interest in the Zhongshan power plant project, it no longer has return on such power plant project based on a guaranteed profit level.

The profit contribution from the Water Project has been encouraging. Although the volume of water supply to Hong Kong has dropped during the period, as a result of an increase of sales of water to other Shenzhen areas, and also more effective cost and management controls, operating profit before finance costs of the Water Project has exceeded the forecast amount by approximately 1%.

Infrastructure

Yingkeng Highway has recorded an approximately 15% reduction in revenue while the performance of the New Pak Kong Bridge remained stable. The profit of approximately HK\$14,000,000 (2000: approximately HK\$10,000,000) has been attributable to the Group during the period by the "2 roads and 2 bridges" projects, namely the Qinglian Highway, the Guangzhou – Shantou Highway (Huizhou section), the Shantou Haiwan Bridge and the Humen Bridge. Such projects are held by the Company's 51% owned jointly controlled entity.

Properties

Mainland China

The competition in the property market in Panyu, Guangzhou during the period was extremely severe. However, the success of its marketing strategy and the timely launching of the marketing campaign for its new units has made it possible for the sale of the residential units in Riverside Garden, Guangzhou to remain strong. Turnover for the period amounted to approximately HK\$256,000,000 (2000: approximately HK\$174,000,000) which was approximately 47% higher than the same period last year.

The performance of Teem Plaza, one of the largest commercial complexes in Guangzhou has likewise been very strong. Rental income has increased by approximately HK\$11,000,000 as compared with the same period last year and a high occupancy rate of approximately 95% was recorded. The internal relocation of shop spaces has further provided an additional lettable area of approximately 3,000 sq.m.

The Group continued to dispose of the residential and shop units in Suzhou GD Plaza. A further provision of approximately HK\$55,000,000 was made during the period against the property project.



Hong Kong

The occupancy rate of Guangdong Investment Tower is close to 100% (2000: approximately 82%). There has however been a slight reduction in the average rental in respect of lease renewals and new leases as compared with 2000.

Guangdong Parking Limited's interest in a car park in North Point has continued to show a minor operating loss. No car parking space was sold during the period.

Hotel

Mainland China

The average occupancy rate of Shenzhen Guangdong Hotel was approximately 95%, representing an increase of approximately 3% as compared with the same period last year, while Guangdong Regency Hotel, Zhuhai had an average occupancy rate of approximately 69%, representing a decrease of approximately 8% compared to the same period last year. The operating profit before finance costs of these two hotels was approximately HK\$13,042,000 representing a growth of approximately 48% as compared with the same period last year.

Hong Kong

The average occupancy rate of The Wharney Hotel Hong Kong and Guangdong Hotel, Hong Kong were approximately 87% and approximately 82% respectively, both slightly higher than that of similar hotels in the area.

A drop in the total revenue of the two hotels was mainly due to the closing down of their existing restaurant operation, leaving the premises for letting. Notwithstanding the decline in their hotel revenue, the operating profit before finance costs contributed from these two hotels, in aggregate, was approximately HK\$4,221,000, better than the corresponding period last year by approximately HK\$2,281,000.

Others

Brewery

As a result of the very keen competition in the Shenzhen market, there was a decrease of approximately HK\$33,215,000 in the turnover of Guangdong Brewery Holdings Limited as compared with the same period last year, with sales volume of only about 72,000 tonnes during the period (2000: about 81,300 tonnes). Owing to the tight controls on production costs, there was an improved gross profit of which the effect was partially offset by both the decrease in turnover (approximately HK\$33,215,000) and increase in distribution costs (approximately HK\$26,000,000) compared with the same period last year.

Tannery

The performance of tannery business by Guangdong Tannery Limited shows an improvement. Sales for the six months ended 30 June 2001 has picked up to approximately HK\$363,855,000 (2000: approximately HK\$338,790,000), with a further increase in profit margin to approximately 12.54%.



Malting

Market competition remained fierce. However, Guangzhou Malting Co., Ltd. continued to increase its sales to approximately 92,290 tonnes (2000: approximately 74,603 tonnes) and Ningbo Malting Co., Ltd. increased its sales to approximately 66,000 tonnes (2000: approximately 52,000 tonnes) during the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2001, cash and bank balances fell by approximately HK\$363 million to approximately HK\$1,729 million (as at 31 December 2000: approximately HK\$2,092 million). This is mainly due to the repayment of bank borrowings under debt restructuring agreements during the period amounted to approximately HK\$521 million.

As at 30 June 2001, the Group's total available credit facilities amounted to approximately HK\$22,863 million, of which approximately HK\$20,760 million have been utilised (as at 31 December 2000: approximately HK\$23,483 million and approximately HK\$21,221 million, respectively). The unutilised banking facilities are amounted to approximately HK\$2,103 million (as at 31 December 2000: approximately HK\$2,262 million).

The existing cash resources and available credit facilities of the Group, together with cash flows generated from its operations, is sufficient to meet its payment obligation and business requirement.

PLEDGE OF ASSETS

At 30 June 2001, certain of the Group's fixed assets, investment properties and bank deposits, with a total net book value of approximately HK\$1,043,619,000 (as at 31 December 2000: approximately HK\$1,104,872,000) were pledged to secure general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 30 June 2001, total foreign currency borrowings amounted to approximately HK\$8,535 million, of which approximately HK\$604 million was non-USD exposures (as at 31 December 2000: approximately HK\$8,790 million, of which approximately HK\$540 million was non-USD exposures).

Certain of the Group's foreign currency borrowings amounted to approximately HK\$3,131 million as at 30 June 2001 are hedged by currency swap agreements.

CONTINGENT LIABILITIES

Details of the significant contingent liabilities at the balance sheet date are set out in note 18 to these financial statements.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 30 June 2001, the Group has about 8,072 employees of whom 866 are based in Hong Kong and 7,206 are based in Mainland China. Total remuneration paid by the Group for the period under review was approximately HK\$196,589,000.

There has been no significant change in the remuneration packages of employees of the Group since the Company's most recent published annual report.