

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Results

During the period under review, the consolidated turnover of the Group amounted to HK\$858,930,000, representing a decrease of 17 per cent. compared to the corresponding period last year. During the period, the Group recorded a loss of HK\$688,912,000.

One of the prime factors accounting for the loss recorded was the dilution of the Group's shareholding interests in COFCO International from approximately 51.13 per cent. to approximately 21.85 per cent. which resulted in a loss of about HK\$160 million on the deemed disposal of this investment. In addition, having considered the market conditions, and after having consulted an independent professional valuer, the Directors have resolved to make a provision of HK\$570,812,000 against the Group's property portfolio.

### Business Review

#### *Property Development and Investment Projects*

The Group's major investment property in Hong Kong, namely Top Glory Tower, is located in a prime commercial area on Hong Kong Island. Rental of this property remained at market levels and average occupancy rate maintained at over 90 per cent. during the period.

The Group has an extensive property portfolio in the Mainland, comprising investment and development projects in various major cities such as Beijing, Shenyang and Shanghai. Construction works on Phase V of Beijing Capital Paradise, the Group's deluxe residential project in Beijing, has been completed, and marketing activities have commenced. Occupancy rate of the rental apartments was over 70 per cent..

The Wal-Mart department store in Shenyang Top Glory Square started its pre-opening renovation works during the period under review. It is expected that its opening will attract more tenants and consumers, and in turn bring more opportunities and revenue for the Group's business in the area.

#### *Hotel Investments*

The occupancy rates of the hotels under the Group's control remained at levels comparable to those in the corresponding period last year despite the fierce market competition.

#### *Foodstuffs & Edible Oils Processing and Manufacturing*

In mid May 2001, COFCO International completed its acquisitions of the edible oils and fats and wines and spirits businesses from its parent company, COFCO (HK) resulting in a dilution in the Group's shareholding in COFCO International from 51.13 per cent. to 21.85 per cent.. Following this acquisition, COFCO International has become the largest edible oils manufacturer in the Mainland. It also increased its stake in China Great Wall Wine Co. Ltd. to 50 per cent. and acquired two additional wineries making "Great Wall" wine and a wholly owned subsidiary engaged in wines and spirits import and distribution.

COFCO International is principally engaged in oils refining, wine making and beverages, international food trading, flour milling and other investment businesses. With a significant increase in the demand of quality foodstuffs and imported products in the Mainland, COFCO International recorded satisfactory results and a contribution of HK\$38,647,000 to the Group's operating profits during the period.

### **Future Prospect**

During the period under review, in view of the continuous improvement in China's economy and in anticipation of China's accession to the WTO, many foreign companies are seeking to establish offices in the Mainland. Demand for quality housing by expatriates has seen a remarkable increase. In addition, benefiting from the advantageous factors of a continuous rise in people's income and a national housing policy, demand for quality housing is also beginning to increase. Further, with Beijing's successful bid to host the 2008 Olympics, together with the rapid development of tourism in the Mainland, demand for properties will rise, particularly demand for hotels in major cities.

Furthermore, the Group has the full support of its ultimate holding company, COFCO, to develop its property projects, reflecting the Group's position as the only listed property flagship of COFCO.

The Group currently owns various office premises, hotels, shopping malls and residential complexes. The Group will in future direct its resources towards developing medium-class to high-class residential projects in major cities in the Mainland such as Beijing, Shanghai, Guangzhou and Shenzhen.

### **LIQUIDITY AND CAPITAL STRUCTURE**

As at 30 June 2001, the Group's total assets was HK\$6,036,454,000 (31 December 2000: HK\$7,662,101,000). Bank borrowings amounted to HK\$832,617,000 (31 December 2000: HK\$862,680,000). The portion repayable on demand or within one year was HK\$612,562,000 (31 December 2000: HK\$492,062,000) while the long-term loans have been reduced to HK\$220,055,000 (31 December 2000: HK\$370,618,000). The gearing ratio (total liabilities/total assets) was 21% (31 December 2000: 19%).

### **CONTINGENT LIABILITIES**

Details are set out in note 13 to the condensed interim accounts.

### **EMPLOYEES' REMUNERATION POLICY**

As at 30 June 2001, the Group hired a total of 2,564 (31 December 2000: 3,837) full-time staff in Mainland China and Hong Kong. The remuneration policy was periodically reviewed by Management.