

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

	2000	1999
	HK\$'000	HK\$'000
Turnover	565,025	99,829
(Loss)/Profit attributable to shareholders	(355,811)	19,650
Shareholders' funds	1,597,895	1,404,498
Total borrowings (excluding convertible bonds)	732,442	481,382
Total borrowings (including convertible bonds)	798,442	481,382
Gearing (excluding convertible bonds) (%)	46%	34%
Gearing (including convertible bonds) (%)	50%	34%
(Loss)/Earnings per share (HK cents)	(22.6)	1.8
Net asset value per share (HK\$)	1.0	1.3
Current ratio	2.2	6.6

REVIEW OF OPERATIONS

Financial Review

Although the turnover of the Group for the year ended 31st December, 2000 increased by approximately 466% from approximately HK\$99.8 million for 1999 to approximately HK\$565 million for that of 2000, the Group suffered a consolidated loss attributable to shareholders of approximately HK\$355.8 million for the year under review. The loss was mainly attributed to the diminution in value of the Group's investments and property portfolio. In order to preserve the Group's cashflow and in view of the results of the year, the Board has decided not to propose any final dividend for 2000.

Project Review

Hong Kong Property Projects

The aftermath of the Asian financial turmoil saw the Hong Kong property market in substantial decline from end of 1997 to 2000. Property buyers employed a wait and see attitude, as the downside of the property market was still unclear. The market was characterised by buyers seeking investment values on one hand and prospective owners who are in need of accommodation on the other.

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Project Review *(continued)*

Hong Kong Property Projects *(continued)*

During the year, the Group put the Wanchai Brilliant Court on-sale. This is a wholly owned residential development project at Nos. 2-10, 10A-E, Kennedy Street, Wanchai, with a total gross floor area of about 65,600 square feet completed at the end of December 2000. The market response for Brilliant Court was excellent and all units were disposed of within a month. The group also continued to market properties at Tycoon Place at Tai Po, Harbourview Garden at Kowloon City and Villa Sapphire at Tuen Mun.

Another of the Group's project, the Greenery Place at Yuen Long Town Lot 451 was substantially completed by end of December 2000, with a total gross floor area of about 219,000 square feet. Pre-sale consent was obtained in December 2000. Greenery Place was completed in March 2001 and certificate of compliance expected to be obtained in June 2001. Public sale of Greenery Place will be conducted in the second quarter of 2001, depending on market sentiments. The residential project at No. 27-37 Centre Street in Sai Ying Pun, commenced as scheduled in November 2000 and is expected to be completed by December 2001. Total gross floor area for Centre Street project is about 33,000 square feet. Pre-sale of Centre Street project is expected to be launched in third quarter of 2001.

The Group also has plans for a commercial office building at Hung Hom KIL10663 and a submission has been made to the Government on Lease Modification. Since Crown Lease for Hung Hom KIL10663 is conferred by Private Treaty Grant, approval from Chief of Special Administrative Region in consultation with Executive Council is required before any development which deviates from the original use can be implemented.

The Group has submitted applications to the Town Planning Board for change of land use zoning from "Village" to "Residential" for various Lots in Demarcation District 387 Sham Tseng in September 2000. Besides, the Group has also make applications to the Town Planning Board to change the land use of Lot No. 2836 R.P. 2837, 2838, 2846 and 2847 at Demarcation District No. 51, Fanling, Tong Hang from "Recreational" use to "Residential".

For Hung Hom Town Lots 538 & 539 application has also been made for the change of land use in this joint venture project.

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Project Review *(continued)*

China Property Projects

The Beijing residential project at No. 305 Guang An Men Wai Avenue, Xuanwu District - Guang Ning Ming Yuen was commenced in August 2000. Land title documents and permits for construction for Phase 1 were obtained in mid 2000. The project has a total gross floor area in excess of 340,000 square metres and is constructed on a site of about 124,000 square metres. Phase 1 contains three tower blocks and has a total gross floor area of 99,000 square metres. It is expected to be completed by end of 2002 and pre-sale will be conducted in late 2001.

The Dalian project is situated at Zhongshan District with a total gross floor area of 60,000 square metres. Approval for change of land use to residential has been obtained in 2000. Approval for extended preliminary design has already been conferred by the local building authority in January 2001 and foundation works for the project is expected to commence in June 2001. With respect to share holding structure for the project, tentative agreement with the two PRC joint venture partners have been reached.

Cybercity Shenzhen Business Park

Cybercity Shenzhen Business Park is the flagship of the Group and it helps in realizing the hi-tech industry blueprint of the Shenzhen Municipal Government. With a development site of approximately 338,000 square metres and a total gross floor area of about 536,000 square metres eventually, Cybercity Shenzhen targets local and international hi-tech, software, biotechnology, telecommunications, multimedia, R&D and information technology companies. Cybercity is scheduled to be completed by end of 2004, by which time it would accommodate about 200 to 300 high tech, internet and telecommunication companies from China and overseas and housing some 12,000 workers. Phase 1 comprising two cross-shaped 5-storey building with a total gross floor area of 23,000 square metres was completed in March 2001.

The park has been equipped with modern and sophisticated data communications facilities. The Group has installed an optic fibre-based network with redundant switching and routing equipment to ensure that Cybercity tenants are offered the most advanced local and wide area network services available.

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Technology Projects

During the year, the Group invested in three Information Technology projects.

A subsidiary of the Group has a 72% interest in Easykeys Limited (“Easykeys”) to develop a new, patented system for entering Chinese characters into personal computer systems. During the year Easykeys completed its technical development programme, moving from the laboratory stage to functional commercial prototypes.

A subsidiary of the Group made an initial phase of investment in e-Cell Technologies Inc. (“e-Cell”), of the United States. e-Cell, in which the subsidiary of the Group holds preferred stock convertible into approximately 13.55% of e-Cell’s common stock. e-Cell is engaged in the development of broadband communications systems based on Digital Subscriber Line (DSL) technology. During the year, e-Cell concentrated its efforts and resources on further technical development. By year-end the development programme was approaching the system testing stage.

Another subsidiary of the Group took an effective 50% interest in Beijing Golden Voyage Electronic Technology Company Limited (“Beijing Golden Voyage”), a PRC based company engaged in the development and sale of education software and supporting material to schools and colleges in the PRC. During the year Beijing Golden Voyage made a number of sales to PRC educational institutions, and also developed a major new release of its software. By year-end the company was exploring initial trials of its products in Hong Kong.

Year 2000 was the first year that the Group engaged in investment in projects under this sector. Three investments were made during the year with one in Chinese keyboard technology, one in broadband DSL technology and one in education software. With the downturn of technology business in general and the change of future income expectation from these investments, it was decided that a substantial provision be made against the original investment costs in these three projects. The Group’s senior management is currently conducting detailed reviews of the three Information Technology investments, with a view to maximizing the value of these investments. Nonetheless, given the uncertain nature of the information technology market, and the comparatively low level of tangible assets held by these businesses, the Board has decided to be conservative in its valuation of these investments.

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Segmental Analysis

Property development, investment and management remained the key principal business of the Group with a turnover of approximately HK\$523.8 million (1999: approximately HK\$82.1 million) for the year under review. This represented approximately 93% (1999: 82%) of the Group's consolidated turnover. Geographically, same as last year, Hong Kong remained as the location where majority of the results of the Group was originated from.

Financing and Gearing

As at 31st December, 2000, the Group's total borrowings including convertible bonds amounted to approximately HK\$798.4 million (1999: approximately HK\$481.4 million), resulting in a gearing ratio of approximately 50% (1999: 34%) based on the Group's shareholders' funds of approximately HK\$1,597.9 million (1999: approximately HK\$1,404.5 million). Of the total amounts of bank loans and convertible bonds outstanding as at 31st December, 2000, 77% (1999: 37%) are repayable within the next year, 19% (1999: 56%) repayable within the second year, with the remaining balance repayable in the third to fifth years.

Contingent Liabilities

As at 31st December, 2000, the Company issued guarantees to the extent of approximately HK\$799.9 million (1999: approximately HK\$725.4 million) of which approximately HK\$568.8 million (1999: approximately HK\$379.9 million) were utilised in respect of the bank loan facilities granted to subsidiaries.

Employee Information

At the end of 2000, the Company and its subsidiaries had approximately 195 employees. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis. Other employee benefits included provident fund, insurance and medical cover, subsidised educational and training programmes as well as an employee share option scheme.

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BUSINESS OUTLOOK

In line with the global slowdown the prospects for 2001 remain rather uncertain which is expected to affect the Hong Kong market. The Group will be embarking on developing new business activities in business park development, value-added services and property development. These new business activities will require new investments which are expected to give medium term returns.

Chow Nin Mow, Albert

Managing Director

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