

Group Performance

The Group's business was substantially restructured due to the re-organization exercise completed during the year under review. As a result, the performance of the Group has changed significantly. The profit after-tax attributable to shareholders was reduced to HK\$58 million from HK\$639 million in 1999. The HK\$40 million of other net (expenses)/income is mainly attributed to an exchange loss of HK\$37 million from foreign currency bank deposits. A gain of HK\$3 million was made from the disposal of the Group's 52.4% interest in Millennium & Copthorne Hotels plc (M&C) to City Developments Limited, the controlling shareholder of the Company.

Basic earnings per share including non-operating items was HK1.01 cents (1999: HK8.91 cents), representing a decrease of 88.7% over last year. The weighted average number of ordinary shares in issues was 5,732 million in 2000, compared with 7,171 million in 1999.

Operating Income

The Group recorded a turnover of HK\$158 million, a decline of 97.0% as compared with HK\$5,225 million in 1999. Pre-tax profit also reduced to HK\$56 million, 95.8% lower than HK\$1,332 million achieved in the previous year. Analyses of Turnover and Contribution to Profit from Operations by geographical location and by activity are set out in note 5 to the accounts.

Taxation

The overall effective tax rate (excluding non-operating items) for the Group was 2.7% (1999: 24.4%). Taxation charge reduced substantially to HK\$3 million (1999: HK\$286 million).

Financial Position

As at 31 December, 2000, Group assets reduced to HK\$670 million from HK\$28,098 million. Net cash position reduced to HK\$561 million from HK\$2,941 million. The Group reports its results in Hong Kong dollars and it is the objective of the Group to preserve its value in terms of Hong Kong dollar.

Cash Flow

The Group generated a cash inflow from operations of HK\$3 million (1999: HK\$2,365 million) for the year under review while total cash inflow from returns on investment totalled HK\$148 million (1999: HK\$122 million). Cash of HK\$49 million (1999: HK\$1,173 million) was used for the payment of interest, dividend and taxes. During the year, HK\$60 million (1999: HK\$1,169 million) was incurred for capital expenditure and other investments while HK\$38 million (1999: HK\$6,264 million), net of cash and cash equivalents acquired, was paid for the acquisition of subsidiaries. Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed) amounted to HK\$4,435 million (1999: HK\$Nil) while disposal of investments and fixed assets generated cash inflows of HK\$9 million (1999: HK\$642 million). Net cash outflow from financing activities, including contribution from minority interests, capital reduction of shares, share options exercised and proceeds from bank loans and other financial instruments net of repayments, amounted to HK\$7,177 million (1999: cash inflow of HK\$7,024 million). Consequently, cash and cash equivalents decreased by HK\$2,371 million (1999: HK\$1,755 million increase) for the year under review.

Borrowings

Gearing as at 31 December, 2000 was 0% (1999: 52%). The total interest expense for the year amounted to HK\$5 million (1999: HK\$391 million), which was covered 11.6 times (1999: 3.9 times) by profit from operations of HK\$56 million (1999: HK\$1,518 million). It is the policy of the Group that due care is exercised to ensure that borrowing facilities do not carry onerous or restrictive covenants, and that the terms of the facilities fulfil the underlying requirements.

The Group has no borrowings at the financial year ended 31 December, 2000.

Financial Review

Investment

Following the Group's corporate restructuring exercise, the Company invested US\$28 million for an 85% stake in SWAN Holdings Limited (SWAN) and subsequently, SWAN invested US\$10 million in SWAN Inc., a wholly-owned and U.S. incorporated subsidiary of the Company. Following the fund injection, SWAN Inc. paid US\$5 million to Richfield Hospitality Services Inc., a wholly-owned subsidiary of M&C, to acquire the Sceptre hotel reservation system, hospitality related risk management business and the hotel management contracts as set out in the circular despatched to shareholders on 17 July, 2000. The Group did not recognize any revenue from these investments for this year as the transfer of these assets was completed only on 29 December, 2000.

Treasury Activities

The Group's major foreign currency exposure in terms of cash flows in 2000 was the proceeds received in Sterling pound from disposal of its interest in subsidiaries and dividends. A substantial proportion of the Group's cash deposits are denominated in U.S. dollar and Sterling pound. With respect to the U.S. dollar deposits, as long as the Hong Kong dollar trades within the existing U.S. dollar peg arrangement, currency fluctuations will be minimal. To mitigate the Sterling pound and Hong Kong dollars exchange rate risk, the Group takes a view of currency movements and enter into currency swaps as necessary with a view to reduce its exchange rate exposure.

Capital Expenditure

The Group's additions to fixed assets amounted to HK\$6 million in 2000 (1999: HK\$483 million) and this is immaterial for the financial year ended 31 December, 2000. The major disposal of fixed assets amounting to HK\$23,898 million was mainly related to the disposal of the Group's interest in M&C. The Group has planned to invest approximately HK\$50 million in hardware and software expenditures to support the growth of SWAN for year 2001.

Employees

As of the end of financial year ended 2000, the Group has 61 employees on its payroll and the total payroll cost for the year was HK\$11 million. The Group offers competitive wage and benefits package and offer excellent career advancement opportunity and is reviewing various options for establishing Executive Share Option Schemes for its executives and/or employees (including Directors).

