

Management Discussion

MARKET OUTLOOK

Property

With the gradual recovery of the local property market, there is significant improvement in the retail and office rental market, noticeably in premium commercial districts like Causeway Bay. This will enhance the Group's rental income.

In view of the significant improvement of the property market, the Group reached a debt restructuring agreement with its principal bankers in May 2000. This has facilitated the extension of Soundwill Plaza at 38 Russell Street and the development of a 27-storey Grade A commercial and shopping building at Nos. 6–16 Russell Street, both located in the prime shopping and commercial location of Causeway Bay, adjacent to Times Square.

Information Technology

The Group's optical networking unit is dedicated to provide customized, cost-effective optical networking solutions that help telecommunications carriers maximize the potential of their networks using the Dense Wavelength Division Multiplexing ("DWDM") technology which has a good prospect given the ever increasing demand for transmission bandwidth in the era of information technology. The Group is developing new products to meet customers' needs and working with a number of major telecommunications network providers towards this goal. The Group continues to work closely with leading vendors, manufacturers and traders and maintains strategic connections with them, which are prerequisites for further developing the China and Asia Pacific markets. All these have put the Group in a favorable position in the optical networking industry.

SIGNIFICANT INVESTMENTS HELD

Property

The Group has continuously maintained a 95% occupancy rate at its flagship building, Soundwill Plaza, located at No. 38 Russell Street, Causeway Bay. The rental renewal rate for its retail space in 2000 has returned to the level achieved in 1997 and in some cases, even surpassing the 1997 level.

Information Technology

The Group has invested in DWDM technology and acquired an effective 63% stake in Optilink Technologies Company Limited ("Optilink") which specialises in the design and manufacturing of DWDM open transport systems.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year, the Group acquired 90% of the issued share capital in Vision Telecommunications Holdings Limited which in turn holds 70% of Optilink.

The Group also disposed of various properties including Kimberley Plaza located in Tsimshatsui.

EMPLOYEES REMUNERATION

The Group offers its employees competitive remuneration packages. During the year, share options were granted to various directors and employees on a performance related basis.

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CHARGES ON THE GROUP'S ASSETS

As at 31 December 2000, properties of the Group with an aggregate net book value of approximately HK\$2,741,460,000 (1999: approximately HK\$2,757,618,000) were charged to bank creditors to secure banking facilities for the Group.

CONTINGENT LIABILITIES

The two property related proceedings involving two wholly owned subsidiaries (the "Subsidiaries") of the Company respectively are still on-going. According to the latest legal advice taken by the Company, there is higher than reasonable chance in one of the proceedings that the Subsidiary would be able to seek rescission of the relevant agreement and obtain refund of deposit of HK\$33,000,000 already paid. In any event, the Subsidiaries and their respective shareholders would not incur any further liability towards the sellers other than the deposits of HK\$65,000,000 and HK\$33,000,000 and/or security for costs already paid.

According to the Debt Restructure Agreement dated 8 May 2000, the Company has issued to its bankers 184,381,339 units of unlisted warrants, pursuant to which the Company has guaranteed the bankers a minimum return on the exercise of each warrant. The maximum liability of the Company in this regard is approximately HK\$18,000,000.