

Management Discussion and Analysis

GENERAL OVERVIEW

During the year ended 31st December, 2000, the Group recorded an audited consolidated net profit of HK\$11.44 million (1999: loss of HK\$39.59 million) attributable to shareholders and a basic earnings per share of 0.89 HK cent (1999: loss per share of 3.15 HK cents). Turnover for the year was primarily derived from sale proceeds of miscellaneous investment properties in Macau, however, the operating activities of the Group did not make any contribution to the results and interest expenses was the major outlay of the Group. The improvement in results was mainly attributable to a share of results of an associated company, Pudong Development Holdings Limited ("PDHL"), for the year.

OPERATIONS REVIEW

Investment holding in PDHL, a listed company in Hong Kong, and property investment and development remain the major business of the Group.

Investment Holding

As at the balance sheet date, the Group held a 24.58% interest in the total issued share capital of PDHL and a summary of the operations of PDHL for the year under review is as follows:

An audited consolidated net profit of approximately HK\$97.87 million (1999: loss of HK\$79.65 million) attributable to shareholders and a basic earnings per share of 9.24 HK cents (1999: loss per share of 7.52 HK cents) were reported for the year ended 31st December, 2000. PDHL made such a significant improvement in its results as a result of an increase in turnover, a tight control of cost and expenses, and an adjustment to provision for diminution in value of certain properties after a market valuation. Turnover was increased drastically during the year mainly due to the recognition of sale proceeds of various property development projects in Shanghai after obtaining the relevant reality title certificates.

Investment in mainland China is still the mainstay of PDHL whose principal business therein include property development and investment, hospitality and leisure industry, and industrial operations. High-end residential property development in Shanghai was the major contributor to its results for the year.

PDHL has developed up till now 6 phases of residential units around the boundary of Tomson Shanghai Pudong Golf Club in Huamu District of Pudong, Shanghai. Amongst them, 5 phases are development of detached and semi-detached villas and so the project is named as Tomson Golf Villas whilst the remaining phase is a high-rise apartments development and is called as Tomson Golf Garden. Up to the year end, all but 1 unit of Phases One and Two of **Tomson Golf Villas** have been sold and one third of the total gross floor area of the other 3 phases of Tomson Golf Villas have been pre-sold. A sale of around 38% of the total gross floor area of **Tomson Golf Garden** has also been contracted for.

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A new residential property project, **Tomson Garden**, is being developed by two phases in Zhangjiang Hi-tech Park of Pudong. It is a townhouse development of a total gross floor area of 156,684 square meters. Construction of the whole project is targeted for completion in July 2002. Internal subscription of the project is being carried out and around 36% of the total gross floor area of the whole project have been sold out.

Construction works of a low-rise residential project, namely **Xingguo Garden**, in Changning District of Puxi, Shanghai is estimated to complete in November 2001 and marketing programme will be launched soon.

Sale of the other residential development projects in Shanghai during the year was promising. In addition, PDHL enjoyed a stable recurrent rental income from **Tomson International Trade Building** and **Tomson Waigaoqiao Industrial Park**, both of which are located at Waigaoqiao Free Trade Zone of Pudong, Shanghai.

On the other hand, the **Shanghai PVC pipes manufacturing operation** generated revenue to PDHL, but the industrial operations of PDHL as a whole incurred loss during the year.

Interest on borrowings and depreciation charges eroded the profit margin of the hospitality project of PDHL in Lujiazui Finance and Trade Zone of Pudong, Shanghai, **Hotel Inter-Continental Pudong Shanghai**, and hence the project has not yet made contribution to the results of PDHL but its average occupancy rate was increasing.

Property Investment and Development

The Group holds a number of units of shops and carparks in Macau for sale and trivial sales were recognized during the year. In addition, the Group has a 60% interest in a plot of land in Taipa, Macau and its development plan was pending till revival of the market condition.

In May 2000, the Group entered into a non-legally binding heads of agreement with Shanghai Zhangjiang Hi-Tech Park Development Corp. and Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd., companies incorporated in mainland China, whereby the parties thereto agreed to investigate the feasibility of an investment proposal of a property development project in a plot of land in Zhangjiang Hi-Tech Park, Pudong, Shanghai. Discussion amongst parties concerned was continuing but no formal agreement was concluded yet.

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FINANCIAL REVIEW

Liquidity and Financing

At the balance sheet date, the cash and cash equivalents of the Group amounted to HK\$17.39 million. During the year under review, the Group's operations absorbed a cashflow of HK\$2.29 million. In the same year, cash of HK\$8.29 million was spent in servicing of finance net of returns on investment and in investing activities of the Group. Together with the net cash inflow of HK\$12.18 million from net tax refund and financing activities, the net cash inflow of the Group for the year amounted to HK\$1.60 million.

The Group's borrowings at the balance sheet date amounted to HK\$84.72 million, equivalent to 11.49% of the Group's shareholders' funds at the same date. Amongst the said borrowings, HK\$10.00 million was provided by a financial institution and was secured by certain shares in PDHL held by the Group while the remainder was unsecured loan financed by a Director of the Company and a company associated with him. All of these borrowings are due for repayment within one year from the balance sheet date. It is the current plan of the Group to repay these borrowings out of future operating revenue and sale of miscellaneous surplus assets/investments of the Group. The Director of the Company who provided a significant share of borrowings to the Group has confirmed to continue his support to the Group and possible plans are being implemented to reduce the borrowings, hence the Board is confident with the solvency of the Group.

In relation to the investment proposal of a property project in Zhangjiang Hi-Tech Park, Pudong, the Group had a capital expenditure authorized but not contracted for amounting to approximately HK\$126.90 million at the balance sheet date and such expenditure is planned to be satisfied by an issue and allotment of new shares in the Company.

At the balance sheet date, all the liabilities of the Group are due for repayment within one year and the gearing ratio (total liabilities to shareholders' funds) of the Group was 13.76%.

Charge on Assets

As at 31st December, 2000, the Group pledged certain shares in PDHL with an aggregate book carrying value of HK\$452.31 million to secure a general banking facility of the Group.

Foreign Exchange Exposure

As all of the assets and liabilities of the Group are denominated in Hong Kong Dollars, the Group has no exchange risk exposure.

Contingent Liabilities

The Group had no contingent liabilities during the year under review.

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PROSPECTS

In view of the achievement of the economic reforms in mainland China in recent years and China's impending accession to the World Trade Organization, the Board is confident with the prospects of China and determines to enhance the Group's investment in mainland China by keeping its interest in PDHL as a long term investment and exploring any other possible investment opportunities therein.

Though the market sentiment in Macau has improved since its reunion with the mainland China, the property market is still clouded by over-supply of stock, hence the Board will continue to exercise caution in evaluating any development proposals of the vacant site in Taipa, Macau.

DIRECTORS AND STAFF

Subsequent to the resignation of Mr Wu Choi Sun, William as a Director of the Company in February 2001, we welcome the joining of Mr Tong Albert to the Board of Directors of the Company in March 2001.

As a result of the current arrangement for the Group to share administrative resources with an associated company, only three employees were engaged as salaried employees in the Group during the year and the aggregate remuneration paid to them for the year amounted to HK\$329,000. The Group offers a competitive remuneration and benefit package to its employees. An employee share option scheme was established by the Company in September 1997 whereby the Directors of the Company are empowered to offer options to executive directors and employees of the Company and its subsidiaries.

The Board would like to express its gratitude to all the staff members of the Group for their dedication and continuing support over the years.

On behalf of the Board
Tong Cun Lin
Chairman

Hong Kong, 12th April, 2001