

## BUSINESS REVIEW

Shanghai Fortune World Development Co. Ltd.

### *Shanghai Fortune World (35% attributable interest)*

Located in the heart of Shanghai's Pudong district, Shanghai Fortune World is a large commercial land development covering 40 hectares of the Lujiazui Finance and Trade Zone. The land is zoned for commercial, retail, entertainment and hotel property development.

The commercial property market in Pudong has recovered significantly during the year. In the Lujiazui Finance and Trade Zone, where most office blocks in Pudong are concentrated, average occupancy rates increased to approximately 70% from approximately 50% in the previous year. Rents have also grown significantly. Rents for high-grade office space in prime locations typically ranged between US\$0.7 and US\$1.5 per square metre ("sq.m.") per day, while rents for B-grade office space typically reached US\$0.5 per sq.m. per day, improving substantially from the previous year.

As at 31 December 2000, a total of gross floor area ("g.f.a.") of approximately 630,000 sq.m. of the Shanghai Fortune World project had been sold. A total g.f.a. of approximately 300,000 sq.m. still remains within Shanghai Fortune World project. The Company is currently studying a number of plans to develop the land within the Shanghai Fortune World project, in order to maximize returns for shareholders.

### *Shanghai Fortune Garden (35% attributable interest)*

The Shanghai Fortune Garden development comprises four luxury high-rise apartment blocks and two combined office/apartment blocks located at no. 1357-1369 Dongfang Road in Pudong.

During the year, the residential market in Shanghai displayed strong signs of recovery. Residential property prices rose by approximately 15% from a year ago. The government's home mortgage policy initiatives, aimed at stimulating the second-hand home market, gave a significant boost to the residential home market. Meanwhile, the abolishment of the toll bridge and tunnel fees for crossing the Bund, implemented in October, has significantly sped-up the pace at which excess property inventory in Pudong is being absorbed.

Shanghai Fortune World Development Co. Ltd. (continued)

With the projected opening of the underground railway extension in 2002, the value of the Shanghai Fortune Garden complex, located adjacent to a new underground railway station, is expected to receive a further boost.

As of 31 December 2000, a total of 404 units in the complex were sold and a total of 80 units had been leased. The Company is focusing on selling the remaining 192 units that are currently vacant, as well as the 80 units that are currently leased.

Land Lot No. 5 ("Lot No. 5") at Lujiazui Finance and Trade Zone  
(100% attributable interest)

Lot No. 5 is situated in a prime site in the Lujiazui Finance and Trade Zone in Pudong, Shanghai, with a g.f.a. of 10,320 sq.m.

In view of the recovery in the property market, the Company is looking to develop the land, in order to maximize returns for shareholders. The Company is currently in the process of selecting partners to co-develop Lot No. 5.

Sale of interest in Tian He Grandview Plaza

Located adjacent to the Tian He Sports Stadium in Guangzhou, Tian He Grandview Plaza is a planned 400,000 sq.m. office/shopping complex, to be built on a 51,759 sq.m. plot of land. As at 31 December 1999, the Company owned a 93% interest in Chia Tai Tianhe Investment Company Limited ("C.T. Tianhe Ltd."), which owned a 70% interest in a sino-foreign joint venture which holds 100% ownership of the Tian He Grandview Plaza project.

In July 2000, the Company entered into an agreement with a PRC-based buyer to sell its entire 93% stake in subsidiary C.T. Tianhe Ltd. for a consideration of US\$19.53 million. As at 31 December 2000, the Company had transferred a 20.7% stake to the buyer, and expects to transfer the remaining 72.3% interest within this year.

## Tianjin Plaza (57% attributable interest)

Situated in the central business district of Tianjin, the proposed Tianjin Plaza covers a site with a g.f.a. of 20,007 sq.m.. Once completed, the complex will offer a g.f.a. of 126,000 sq.m. of mixed retail, office and residential space.

## Shenzhen SDG Golf Club Company Limited (24.5% attributable interest)

During the year, Phase III renovation was completed and all 27 holes were re-opened to members in October. During the year, 96 new members joined the Club, bringing the Club's total membership to 1,656 members.

## Acquisition of interest in Kernel Computers and Communications Co., Ltd. (49% attributable interest)

In December 2000, the Company acquired a 49% stake in Bangkok-based Kernel Computers and Communications Co., Ltd. ("Kernel") for a total consideration of Thai Baht 77.175 million (HK\$14.32 million). For the financial year of 2000, Kernel posted an unaudited after-tax net profit of Thai Baht 31.05 million (HK\$5.76 million). Its unaudited revenues for the year were Thai Baht 150.62 million (HK\$27.95 million).

This profitable non-core business is expected to provide IT support to the Group's future logistics businesses, thus creating a synergetic effect.

Kernel is the leading software solutions provider for Thailand's stock broking industry, providing a full suite of front office and back office solutions to brokerages in Thailand. Its computerized trading solutions are used by more than 75% of the registered dealers in the Stock Exchange of Thailand.

Kernel is now looking to further drive growth through its new on-line stock trading solutions. It is currently one of only a number of Thailand-based ASPs (Application Service Providers) providing one-stop solutions to enable Thai brokerages to offer on-line stock trading services. During the year, Kernel also launched a new suite of turnkey solutions geared for the Thai insurance industry, and has secured mandates from two major locally-based insurers.

## EMPLOYEES, TRAINING AND REMUNERATION POLICY

Including the Directors, the Company had 22 employees as at 31 December 2000. Its human resource strategy is to maintain a small, elite team capable of flexible and expeditious decision-making. Employees are remunerated according to the nature of the job, their qualifications and prevailing market trends. The Company has approved a share option scheme under which the Directors may, at their discretion, grant options to Directors and employees, with the view of encouraging better performance. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue. The share option scheme will remain in force until 17 March, 2004. The Company actively encourages management staff at all levels to undertake training courses, with the view of continually strengthening its human capital. Total staff costs for the year were HK\$4.12 million.

## GEARING RATIO

The Group's gearing ratio for the year was 0.57 (Gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity). This was a significant improvement from the gearing ratio of 0.7 for the year ended 31 December 1999.

## CAPITAL STRUCTURE

During the year, a total of 81,313,166 share options were exercised resulting in the issue of 81,313,166 ordinary shares of HK\$0.10 each generating aggregate cash proceeds of approximately HK\$12.52 million.

What is more, the Company received approval from shareholders during the year to issue convertible notes in the aggregate principal amount of HK\$75 million to its substantial shareholder, Ramon Limited. The issue of the convertible notes raised net proceeds of approximately HK\$74 million to fund the Group's operations. The above notes were all converted during the year resulting in the issue of 1,524,390,243 shares.

The exercising of the options and the issue of the convertible notes have strengthened the Group's financial position and improved its capital structure.

The Company also received approval from shareholders to subdivide the Company's shares from one ordinary share of HK\$0.10 each into 5 ordinary shares of HK\$0.02 each.

## CAPITAL STRUCTURE (continued)

Furthermore, the Company also received approval from shareholders during the year to issue to existing shareholders one bonus warrant for each 10 subdivided shares of HK\$0.02 in the Company, at a conversion price of HK\$0.26, with the expiry date at 12 June 2003. Full exercise of the warrants at the initial subscription price of HK\$0.26 per share would result in the issue of 447,222,416 new shares, and the receipt by the Company of HK\$116.28 million before expenses. The issue of bonus warrants is expected to further help strengthen the Group's financial position and improve its capital structure.

The Group has bank and other borrowings denominated in US dollars amounting to US\$40.34 million. Of this, approximately US\$28.34 million are fixed-interest loans from a third party and related companies and US\$12 million are interest-bearing bank loans.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and cash equivalents were bolstered very substantially during the year by the issue of the convertible notes, which brought net proceeds of HK\$74 million, and by the collection of the RMB equivalent of a US\$9.27 million shareholder loan due from C.T. Tianhe Ltd.

As at 31 December 2000, the Group had the RMB equivalent of HK\$109.15 million in cash and cash equivalents, compared to HK\$0.456 million at 31 December 1999. The significant improvement in the Group's liquidity and very substantial increase in its financial resources has created a stronger foundation on which to deploy the Group's diversification strategy.

## FOREIGN CURRENCY EXPOSURE

As at 31 December 2000, the Group had RMB110.43 million (HK\$102.42 million) in cash. The Group also had US dollar denominated receivables amounting to US\$39.04 million (HK\$303.72 million) due from its jointly-controlled entities, related companies and a debtor, and US dollar denominated loans of US\$40.34 million (HK\$314.62 million). It also had Thai Baht denominated loan receivables amounting to Thai Baht 53 million (HK\$9.70 million) due from an associate company.

The fluctuation in the exchange rates between Hong Kong dollars and RMB, and Hong Kong dollars and US dollars, respectively, has in recent years been relatively small. The Group believes it faces minimal foreign currency risk and thus has not undertaken any hedging activities.