MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the period from 1st April, 2000 to 31st December, 2000, turnover of the Group amounted to HK$188,693,000 which is in line with the turnover of last year (adjusted on a pro-rata basis). The loss for the period was HK$52,648,000. The loss was mainly attributable to a total of HK$34,492,000 provision for deficit arising on revaluation of investment and hotel properties, and a HK$19,108,000 provision for unrealised holding loss on other investments.

During the financial period under review, the Hong Kong economy was gradually recovering. In particular, the signing of the bilateral trade agreements by the PRC with the United States and European Union have consolidated the strategic position of Hong Kong in the international trades of the PRC, facilitating the continuing economic development of Hong Kong.

Shipping

Following the severe downturn over the three years from 1997 to 1999, the international dry bulk carriers market started to pick up in late 1999. The Baltic Freight Index, an index reflecting the performance of charter hire for bulk carriers, reached 1,599 at the end of 2000, representing an increase of 21% compared to the end of 1999. For the current financial period, the shipping business of the Group recorded a profit of approximately HK$9,078,000. In recent years, the Group has rationalised the composition of its fleet by disposing obsolete ships which are aged and less profitable. At present, the Group owns three bulk carriers, namely, M.V. "Hai Kang" and M.V. "Hai Ji" with a dead weight of 70,000 MT each, and M.V. "Jin Feng" with a dead weight of 40,000 MT. The total dead weight is 180,000 MT and the average age of these carriers is 10 years and the composition of the fleet is tend to be favoured. Following the diversification of business, the weighting of shipping business in the Group will decrease in future.

Property Development and Investment

At present, property sector only accounts for a relatively small proportion in the PRC's gross national product and is obviously below the average of those developed countries'. Hence, property sector will remain as a major focus for development in the PRC's national economies. The Group's property projects invested in the PRC mainly situate in Beijing and Shanghai, the regions which are densely populated and with fast economic growth.

Shanghai Stock Exchange Building

At the end of 2000, the vacancy rate of grade A offices in the Pudong district dropped to 28% as compared to 40% at the beginning of the year. The average rental is above US$0.35 per day per square metre.

Following the completion and opening of the new international airport in Pudong, Shanghai last year, and the opening of the cross-river railway and pedestrian subway, office rental rates in Pudong have stablised. It is anticipated that after the PRC joins the World Trade Organisation shortly, certain restricted industries including the financial sector will be gradually opened up. Those multinational corporations are also likely to become more active in the leasing market. Pudong is moving rapidly towards the goal of becoming the financial centre in the PRC and the Far East Region. The property sector of Pudong is expected to enter into a stable stage.

The Group owns a portion of 13,848 square metres in the Shanghai Stock Exchange Building, located in Lujiazui, Pudong, Shanghai (the "Property"). At the end of 2000, the Property has been fully leased out. The rental income for the financial period was HK$733,000 providing a rental yield of approximately 2.5%.

The Shanghai Stock Exchange Building, where the Shanghai Stock Exchange is situated, is not merely a property investment project or a commercial office building. It is a symbolic building for the development of the financial industry and as the "City of Securities" in the PRC. It enhances the building's capital appreciation potential and broaden its market prospect. On the other hand, to maximise investment return, the Group has requested the property management company to control its expenses, improve the quality of the property management and strengthen its promotion domestically and overseas in order to increase the rental yield.

Poly Plaza

At the end of 2000, there were five blocks of Grade A office buildings in Beijing completed construction providing an additional supply of 275,000 square metres to the market. The total supply in the market amounted to 4,730,000 square metres. Competition in the market remained intense. However, owing to great demand for office units from the hi-tech, banking, insurance, securities and financial investment sectors, the vacancy rate of the market fell from 20% at the beginning of the year to 7.2% at the end of the year. In the long run, the economies in the PRC will be growing continuously, rapidly and steadily. Beijing being the political, economic and cultural centre of the PRC and will be developed as an international city with the strongest economic power, most excellent investment environment and will be full of multinational institutions. Hence, the property market is seen to be cautiously optimistic.

The Group owns 75% equity interests in Poly Plaza Limited (“PPL”) whose major asset is Poly Plaza (the “Building”). The Building is located in Dong Er Huan Road (“F/G ”), with a total gross floor area of 93,422 square metres comprising a hotel tower, an office tower and a theatre. Currently, the average letting rate of the office tower of the Building is 97% whereas the occupancy rate of the hotel tower is approximately 85%, both of which are above market averages. As supply of high-end office buildings around the Building is increasing, it is anticipated that operation of PPL will be facing pressure. To cope with market competition and to improve its economic efficiency, PPL is studying the feasibility of upgrading the status of the Building and undertaking renovation to expand the size of its operating area. Besides, PPL is also implementing certain measures to deploy excessive staff, lower operating cost, strengthen management and improve service quality, in order to increase its competitiveness in the market and its economic efficiency. Ping An Avenue besides the Building has been selected by the Beijing Municipal Government as one of the major roads for development, which will enhance the capital appreciation potential of the Building.

On the other hand, the theatre of the Building held a dominant position in the market of art performance in Beijing since its completion in early 1990. Nevertheless, while the audience is increasing their demand on the quality of art performance, the sounds, lighting and platform mechanics of the theatre are relatively obsolete. To compete with other theatres, a renovation project of the Building was started in January 2000. The renovation project costed approximately RMB60,000,000 and was completed in early October 2000. The Group believes that the renovation project will benefit the operation of the Building in the long term.

Beijing Legend Garden Villas

During the year 2000, there was oversupply in the rental market following the completion of various luxurious villas and apartments in both the urban and suburban areas of Beijing. The 20 houses and 37 apartments of Beijing Legend Garden Villas owned by the Group were affected by the excessive supply of properties of similar types in Beijing, so the occupancy rate is not satisfactory. During this financial period, the average occupancy rate is 16% with an overall rental yield of about 2.5%. Considering the deterioration of internal structure of the property and to enhance its competitiveness, the Group has been putting funds in renovation in order to raise occupancy rate. To keep pace with the market change, the Group also considered to reduce the rental, to strengthen control and management of the properties and to achieve cost reduction in order to raise the rental yield. At present, the Beijing Municipal Government has restricted new construction of luxurious villas and apartments. In the medium to long term, the Beijing Legend Garden Villas properties shall provide good investment return and capital appreciation potential.

Winson Plaza

The Group owns 25% interest in the development project of Winson Plaza located in Tianjin, the PRC. The gross floor area of the project amounts to about 57,000 square metres, with total investment of RMB424,000,000. Construction commenced in October 1994 and was completed in 1999. The project has been granted a quality assurance certificate by the Tianjin General Office of Construction Quality Supervision and assessed as quality construction. Since commencing sales, although selling price has been lowered gradually, sales have not been satisfactory. For the sake of prudence, the Group has made provision for diminution accordingly. By the end of December 2000, 20,034 square metres were sold and 22,233 square metres were leased, leading to an occupancy rate of 84%. At present, the related project company has been actively taking measures to promote sales and reduce operating costs.

Power Projects

As at the balance sheet date, the Group together with a power company in Australia hold 52% equity interests in Shengzhou Xinzhonggang Thermal Power Co., Ltd. ("Shengzhou Power"), in which the Group holds 26% interest. Shengzhou Power operates a cogeneration plant with a total capacity of 28.5 megawatt. The total investment is about RMB160,000,000. All three power generators had commenced operation when the joint venture was established. For the year ended 31st December, 2000, Shengzhou Power realised a profit of RMB7,655,000.

The Group also holds 51% equity interests in Taicang Xinhaikang Xiexin Thermal Power Co., Ltd. ("Taicang Power"). Taicang Power operates a cogeneration plant with a total capacity of 30 megawatt. The total investment is about RMB210,600,000. The two power generators commenced operation in December 1998 and February 1999 respectively. For the year ended 31st December, 2000, Taicang Power realised a profit of RMB16,142,000.

New Investments

To accommodate changes of the world economy and to search for new point for economic growth, the Group entered into a conditional agreement in March 2000 to acquire 66% equity interests in Polystar Digidisc Co., Ltd. ("Polystar") for development of hi-tech business. The principal activity of Polystar is the duplication of DVDs. Since the first production in 1982, compact disc technology has been developed for nearly 20 years. Currently, Polystar has four production lines. The annual production is 50,000,000 CDs or 16,000,000 DVDs. The Group would invest approximately RMB62,000,000 in the 66% equity interests of Polystar, with related shareholders' loan. The estimated short-term return of this investment is 10%. The acquisition broadens the scope of operation of the Group as well as consolidates its recurrent income and cashflow base. At present, the Group is carrying out the feasibility of expanding its production and acquisition of other production plants.

In addition to the investment in Polystar, the Group has also engaged in the PRC financial sector. By the end of March 2000, the Group entered into a conditional agreement whereby the Group acquired 48% equity interests in Winterthur Insurance (Asia) Limited at the consideration of approximately HK$74,000,000. The investee company is principally engaged in the operation of non-life insurance business in Shanghai through its branch in the region.

In November 2000, the Group entered into an agreement with Cosmo Satellite TV Company Limited ("Cosmo") whereby the Group has agreed to lease an existing channel operated by Cosmo to launch a cartoon channel. It is expected that total investment will be about HK$90,000,000 for the coming three years. The launch of the cartoon channel will consolidate the DVD duplication business of Polystar and the distribution business of United East Audio & Video Co., Ltd., a subsidiary of Polystar, to form the material components of the cultural and mass media business of the Group.

Strategic Investments

As at 31st December, 2000, the Group owned approximately 45% shareholding in Poly Investments Holdings Limited ("Poly"). It is the Group's intention to remain as the controlling shareholder of Poly. As Poly is an investment holding company listed in Hong Kong, it still has room for further development.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2000, the Group's total shareholders funds amounted to HK$2,223 million, compared to HK$2,114 million as at 31st March, 2000. The net asset value per share was HK$2.71 as at 31st December, 2000 (31st March, 2000: HK$3.04). The gearing ratio was 16% (basis: total liabilities net of bank balances and divided by shareholders funds) as at 31st December, 2000, compared to 14.5% as at 31st March, 2000.

As at 31st December, 2000, the Group had working capital of HK$215 million, a cash balance of HK$369 million, compared to working capital of HK$218 million and a cash balance of HK$437 million as at 31st March, 2000.

PLEDGE OF ASSETS

As at 31st December, 2000, bank deposits of HK$13,407,000 (31st March, 2000: HK$12,543,000), certain of the Group's investment properties of approximately HK$301,725,000 (31st March, 2000: approximately HK$313,096,000), other property interests and motor vessels with an aggregate net book value of approximately HK$1,000,067,000 (31st March, 2000: HK$1,211,885,000), and shares in certain subsidiaries and an associate were pledged to secure credit facilities granted to the Group.

STAFF

As at 31st December, 2000, the Group employed about 900 staff with remuneration for the period amounting to approximately HK$34 million. The Group provides its staff with various benefits including year-end double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

PROSPECT

Facing the changing economic conditions, the Group will continue its prudent operating strategy. As for the existing operations, the Group will further strengthen its operation management and risk control, improve management quality and lower operating costs so as to perfect its corporate management. Meanwhile, the Group will continue to take a prudent approach towards new investment projects, which must meet with criteria including attractive return, stable income and low risks.