

Management Discussion and Analysis

Financial Commentary

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Turnover and Profit Attributable to Shareholders

Net turnover of the Group for year 2000 increased by 19% to approximately HK\$462.3 million compared with 1999. Profit attributable to shareholders amounted to approximately HK\$57.8 million, representing an increase of 2% from last year.

Cash Flows

Net cash inflow from operating activities increased by HK\$14.5 million in 2000 compared with 1999. This increase was mainly attributable to decreases in properties held or under development for sales as well as increase in tax provision and profit before taxation.

Net cash outflow from returns on investments and servicing of finance decreased by HK\$23.2 million during 2000 as compared with 1999. This was mainly due to dividend payments of HK\$17 million in 2000 (1999:HK\$47 million which included dividend payment to shareholders and dividend payments by subsidiaries to minority investors.).

Net cash outflow in investing activities increased by HK\$40.7 million in 2000 compared with 1999, primarily due to increase of investment in associates and trading securities.

Net cash inflow in financing activities decreased by HK\$180 million in 2000 compared with 1999. The change was mainly due to net proceeds from issue of shares amounted to HK\$187 million last year.

Liquidity and Capital Resources

The Group's liquidity position is consistently sound. Cash and bank balances amounted to HK\$197.7 million as at 31 December 2000 (1999:HK\$227.8 million). Working capital (net current assets) of the Group as at 31 December 2000 remained at almost the same level as last year at HK\$423.5 million. The current ratio was at a healthy level of 2.3 (1999:2.4). At 31 December 2000, the Group had short-term bank loans totaling HK\$57.5 million (1999:14.9 million).

As at 31 December 2000, the Group's net debt to shareholders equity ratio remained at zero whereas the Group's total liabilities to shareholders equity increased slightly to 0.77 (1999:0.76). Total liabilities of the Group amounted to HK\$380.6 million (1999:HK\$341.8 million).

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Management is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, Management also believes that the Group is in a good position to obtain financing on favorable terms.

At 31 December 2000, the Group had contingent liabilities of HK\$230 million (1999:HK\$140 million). The contingent liabilities were in respect of guarantees to assist home buyers to obtain mortgage loans from banks and complete mortgage procedures.

Review of Operations

In the period under review, the Group had effectively materialized its major business operations reorganization. There are two important environmental factor and strategy which cannot be ignored.

- With China's entry into WTO, adjustments resulting from structural change of industries are inevitable. China's entry into WTO will bring favorable impact on the information technology industry. For example, the reduction in import tariff will discourage smuggling activities. At the same time, intellectual property rights will be better protected. This will not only improve the information technology business environment but will also increase the competitiveness of the large corporations.

The Group fully recognize its own competitions advantages: not to diversity into various industries, but to seek the interaction point of various industries; not to enter into various market, but to identify the integration point of the market; not to invent new technology, but to identify its application in the market place. In other words, the Group fully understand the new economy must still learn from the old. In particular, it must energetically seek to adopt elements of successful traditional business strategies. The development of Shanghai Home Line and telecom broadband network technology business are rational extension of the Group's traditional real estate business. By providing Shanghai Home Line content and related value-added services as well as developing Shanghai Telecom broadband network new and high tech business. These are the converging points of traditional real estate business and new and high-tech industry which are complementary strategies.

- Revival and new opportunities of real estate industry in China since year 1992, in particular Shanghai and other coastal cities.

Despite periods of trough, the Group could still achieve outstanding results due to its timely major business operations reorganization, ability to integrate traditional real estate business with new and high-tech industries. Over time, the Group had accumulated abundant experience and talents which laid the foundation for future profitability.

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Development environment and opportunities in year 2001

- With the Implementation of “Tenth Five-Year Plan”(『十五計劃』), China’s economic development will further accelerate.

Year 2001 represents the first year of the “Tenth Five-Year Plan”. It is anticipated that the economic growth of China would maintain at around 8%, which is higher than that of 1995 planned period.

- Inauguration of “One Three Five Three” informationalization project(上海『一三五三』信息化工程)

With China’s entry into WTO, Shanghai informationalization working meeting confirmed that the Shanghai “One Three Five Three” informationalization project was inaugurated. The project can be elaborated as: one three-star information network; construction of

“上海住宅网”

在功能方面有以下几个特点：

特点A	充分发挥宽频网络的优势	
	大量运用视频的表现形式	

特点B	与居民生活密切相关	
	为居民服务实用周到	

特点C	方便居民接入公网	
	促进邻里相互沟通	

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three key application project of enterprise informationalization, construction of five electronic commerce demonstration platform; start-up of three enterprise informationalization major application project. Internet based transactions will reach RMB 40 billion by 2002 and RMB 100 billion by 2005. With the support of government policies, information industry will flourish.

- **The market potential for telecom broadband network and telecom value-added services increase tremendously.**

In recent years, Internet subscribers in China had been increasing tremendously. It is estimated that the Internet subscribers will continue to grow in an accelerated manner in year 2001. With the improvement in living standards, telecom broadband network access and subscribers with grow in multi-fold, the prospect for telecom value-added services will even more promising.

Booming of real estate market and increase in purchasing power.

Relevant Government statistics revealed that the revival of the real estate industry contributed to national economic growth had reached 1%, National Housing Prosperity Index drawn closed to 104 point, representing a new height since 1998. Land development, construction investment and sales of real estate were increased at the same time. Land development area in year 2000 increased by 36.5% as compared with that in year 1999. Real estate investment increased by 17% whereas sale of real estate area escalated by 35.3%. All these phenomenon signified the real estate industry had entered into a new growth phase. As analyzed by the leading expert of industry committee, the real estate market had fully revived resulted from consumption of city citizens, which is rather different from that in year 1992. The market boom in year 1992 was driven by hotel and commercial buildings as well as the bubble economy. It is estimated that the spending in real estate by China city citizens will reach RMB 800 billion by year 2020. Residential housing spending will play a leading role in this real estate boom, the prospect of intelligent, networkization, informationalization real estate district is promising and pertinent market potential is excellent. In January 2001, two real estate developers from Shanghai and Beijing successfully issue new shares publicly in Shanghai Stock Exchange after seven years' dormant period. This further evidenced that China Government's determination to use real estate industry to take the lead for continued growth of the economy.

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Steady development of real estate, the Group endeavor to develop the construction and operation of telecom broadband network and other new and high technology business.

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The Group will highly regard the current business and related profit opportunities. Adhering to prudent financial policies, following economic construction trend and making use of market development hot spot, the Group will fully explore its competitive advantages of major business operation structure. The Group will steadily develop real estate projects, and strive to develop telecom broadband network projects as well as new and high-tech business. The Group will become a conglomerate mainly engaged in new and high-tech investment and prime-quality real estate projects having synergy and complementary with each other and further boost its profitability.

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The Group believe that with the development of prime-quality real estate markets and telecom broadband network business, the Group had already secured the following distinctive competitive advantages:

- **Refined major business operation structure**

The Group had established and refined its new major business operation structure which is fully compatible with Shanghai economic trend and its backbone industrial trend as well as securing the support of Shanghai Municipal Government so as to fully explore its own competitive advantages and to secure profitability.

- **Brandname with good reputation.**

The Group's brandname "Oasis" is one of the famous real estate brandname in Shanghai and enjoys good reputation both in China and overseas markets, the real estate brandname "Oasis" now represents intelligent, networkization, informationalization real estate districts.

- **Stable source of profitability**

With the revival of real estate market, the Group's sales of its intelligent housing properties will increase significantly as facilitated by electronic commerce services and Shanghai Home Line. In addition, the construction and operation of the telecom broadband network as well as market launch of the new and high-tech product will provide stable source of profitability to the Group.

- **Stable and reliable social resources.**

The Group establish good relationship with Shanghai Telecom, Shanghai Long-distance Telecom Development Co. Limited, Shanghai Caohejing Hi-tech Park Development Corporation and a number of strategic partners in finance sector as well as Tongji University, Shanghai Institute of Technical Physics The Chinese Academy of Science. These relationship are indispensable and reliable social resources which allow the Group to develop Telecom Brandband network and high-tech business as well as prime-quality real estate.

- **Leading technology products in China and overseas.**

The Group had launched "intelligent carpet" and "intelligent home appliance infra-red remote control device". "Intelligent carpet" can inform the house owner when visitor come without knocking the door or pushing the door bell. "Intelligent home appliance infra-red remote control device" allow house owner to exercise control over rice cooker, air conditioner, etc through the telephone. These products are leading in terms of technology both in China and overseas. In particular, these products are presently exclusive in China.