



Management's Discussion and Analysis

BUSINESS REVIEW

Shanghai Fortune World Development Co., Ltd.

Shanghai Fortune World (35% attributable interest)

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

Lujiazui Finance and Trade Zone, where principal office blocks in Pudong are concentrated, is rapidly developing into the most important office area in Shanghai with the greatest potential for growth. With the total take up space for 2001 was nearly double of the previous year, net effective rent for the office block in Lujiazui Finance and Trade Zone was over 10% higher than the previous year. Rents for Grade A office space in prime locations typically ranged between US\$0.9 and US\$1.5 per square metre ("sq.m.") per day, while rents for Grade B office space ranged between US\$0.5 and US\$0.8 per sq.m. per day, improving substantially from the previous year.

As at 31st December, 2001, a total of gross floor area ("g.f.a") of approximately 295,000 sq.m. situated in the prime location of Lujiazui area still remained within the Shanghai Fortune World project. The Company is currently studying a number of plans to develop the land in order to maximize returns for shareholders.

Shanghai Fortune Garden (35% attributable interest)

The Shanghai Fortune Garden development project 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, a massive nationwide domestic user demand was generated by the government's housing reform. The housing reform, such as replacing the housing allocation system with subsidy and increasing public housing rental to encourage home ownership, gave a significant boost to the residential home market. Meanwhile, the good news such as the grand opening of the underground railway extension by the end of 2002 and the adoption of several government policies to open up the housing market etc, have cut down the vacancy rate significantly as compared to the previous year.

With the projected opening of the underground railway extension by the end of 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 at 31st December, 2001, a total of 448 units in the complex were sold and a total of 80 units have been leased. The Company is focusing on selling the remaining 148 units that are currently vacant, as well as the 80 units that are currently leased.



Management's Discussion and Analysis (Continued)

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

Land Lot No. 5 is situated in a prime site of the Lujiazui Finance and Trade Zone in Pudong, Shanghai, with a g.f.a of 10,321 sq.m..

In view of the commercial property market in Lujiazui area having recovered significantly in the past years, the Company is currently studying a number of plans in order to maximize returns for shareholders.

Tianjin Datian Plaza (57% attributable interest)

Located in the central business district of Tianjin, Tianjin Datian Plaza covers a site of 20,007 sq.m. and is designed to be a commercial complex providing 126,000 sq.m. for mixed-use shopping arcade, high-rise office buildings and luxury apartments.

Freewill Solutions Co., Ltd. (49% attributable interest)

Founded in 1991, Freewill Solutions Co., Ltd. ("Freewill") is engaged in providing software solutions to Thailand's financial sector and the Asia Pacific region.

During the year, the core business of the Bangkok-based Freewill has been split into two: the existing financial system division and the newly launched e-business division.

Freewill's financial system division, a leading software solutions provider for Thailand's stock brokerage industry, is continuing to provide software solutions to the stock brokerage and non-life insurance industries.

The newly launched e-business division provides e-business solutions to the Thai business sector. The e-business division provides e-catalog, which aims at improving the efficiency of the e-trade, and online auction, a real time auction service offered to the users through the Internet.

Looking forward, Freewill is aiming at further growth through its proposed new projects such as e-Marketplace, web-based enterprise resource planning for small enterprises and multimedia design service.

Wuhan Chia Tai Trading Co., Ltd. (65% attributable interest)

During the year, Chia Tai Trading Investment Co., Ltd., a wholly-owned subsidiary of the Company, entered into a joint venture agreement with an independent third party to set up a new jointly controlled entity, Wuhan Chia Tai Trading Co., Ltd. ("Wuhan Chia Tai") in the PRC.

Wuhan Chia Tai focuses on retail business namely "Club". "Club" is a form of business, which is similar to wholesale business. It offers basic daily products in bulk pack to its members under one roof.



Management's Discussion and Analysis (Continued)

Wuhan Chia Tai Trading Co., Ltd. (65% attributable interest) (Continued)

Located in Wuhan, Wuhan Chia Tai is a large-scale store with an area of approximately 10,000 sq.m.. The first store has been officially opened on 29th September, 2001 and the second store will be opened in 2002.

Sale of interest in Tian He Grandview Plaza

Located in the heart of Tian He district of 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.

In 2000, the Company entered into an agreement ("Original S&P Agreement") with a PRC-based buyer ("buyer") to sell its entire 93% interest in a subsidiary, Chia Tai Tianhe Investment Company Limited ("C.T. Tianhe"). C.T. Tianhe owned a 70% interest in a sino-foreign joint venture which held 100% ownership of the Tian He Grandview Plaza project.

During the year, a supplemental agreement is under negotiation with the buyer by the Company in order to extend the time for the completion of the Original S&P Agreement. The final terms of the supplemental agreement have yet to be finalized. As at 31st December, 2001, the Company had transferred 20.7% interest in C.T. Tianhe to the buyer, and expected to transfer the remaining 72.3% interest within the next 2 years.

Sale of interest in Shenzhen SDG Golf Club Company Limited

During the year, Fortune World Limited, a wholly-owned subsidiary of the Company, entered into an agreement with a minority shareholder to dispose of its entire 50% interest in Hualien Golf Development Limited, which held an indirect 24.5% interest in Shenzhen SDG Golf Club Company Limited for a consideration of RMB75 million. The transaction was completed on 22nd March, 2002.

EMPLOYEES, TRAINING AND REMUNERATION POLICY

Including the Directors, the Company had 20 employees as at 31st December, 2001. Its human resource strategy is to maintain a small, elite team capable of flexible and expeditious decision-making.

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical cover, subsidized educational and training programmes as well as share option scheme.

Total staff costs (except Directors' remuneration) for the year were HK\$13,325,000 (2000: HK\$4,118,000).



Management's Discussion and Analysis (Continued)

■ GEARING RATIO ■

The gearing ratio is calculated by dividing interest-bearing bank loans and other borrowings by shareholder's equity.

The Group's gearing ratio for the year was 0.41, which saw an improvement from the gearing ratio of 0.57 for the year ended 31st December, 2000.

■ CAPITAL STRUCTURE ■

During the year ended 31st December, 2001, there was no change in the Company's share capital.

As at 31st December, 2001, the Group had bank and other borrowings denominated in US dollars amounting to US\$29.66 million (2000: US\$40.34 million). Of this, approximately US\$17.66 million (2000: US\$28.34 million) was fixed-interest loans from a third party and related companies and US\$12 million (2000: US\$12 million) was interest-bearing bank loans. Borrowings were closely monitored by the Group so as to maintain gearing at a reasonable level.

■ LIQUIDITY AND FINANCIAL RESOURCES ■

The Group's operations are generally financed by internally generated cash flow, loans from a third party and related companies and bank borrowings. The financial position of the Group remained healthy for the year under review.

As at 31st December, 2001, the Group had RMB equivalent of HK\$23.59 million cash and cash equivalents (2000: HK\$109.15 million). Apart from daily operating expenses, the majority of funds available during the financial year were used for investment, which would improve the liquidity of the Group.

As at 31st December, 2001, the current ratio was 0.36 (2000: 0.79).

■ FOREIGN CURRENCY EXPOSURE ■

As at 31st December, 2001, the Group had RMB23.59 million (HK\$22.18 million) in cash. The Group also had US dollar denominated receivables amounting to US\$38.71 million (HK\$301.92 million) due from its jointly controlled entities, related companies and other debtors, and US dollar denominated loans of US\$29.66 million (HK\$231.37 million).

Most of the Group's monetary assets and liabilities are denominated in Hong Kong dollars, RMB and US dollars and minimal balances in Thai Baht. As Hong Kong dollars is pegged to the US dollars and the fluctuation in the exchange rates between Hong Kong dollars and RMB has been relatively small in recent years, the Group believes that it faces minimal foreign currency risk and thus, has not undertaken any hedging activities.