

# Chairman's Statement

..... We believe that the Beijing property market will have healthy development in the years ahead. With our years of knowledge in the Beijing market and our relationship with local companies, we will continue to look for opportunities in the property sector and are confident that the sector will bring satisfactory return to our shareholders .....



For the year ended 31st December 2002, the audited net loss for ING Beijing Investment Company Limited ("ING Beijing" or the "Company") and its subsidiaries (the "Group") totaled HKD 19,990,416. The consolidated net asset value per share of the Company was HKD 0.309 as at 31st December 2002. The Group's audited net loss for the year up to 31st December 2001, and the consolidated net asset value per share of the Company as at 31st December 2001 were HKD 207,157,136 and HKD 0.318 respectively.

The loss for the year was arrived at after providing losses against certain investments as a result of changes in the market environment.

**HIGHLIGHTS** During 2002, the Group realized its convertible loan advanced to  
**OF THE** Companion-China Limited and its investment in Skynet Limited.  
**YEAR**

Due to uncertainties surrounding the world economy and the continued depression of the IT and telecommunication sectors, the Company has decided to provide in full for its investment in ChinaGo Limited ("ChinaGo") and the remaining unprovided portion of its investment in Beijing Asia Pacific First Star Communications Technology Co., Limited ("APFS"). ChinaGo is an information technology services provider specializing in internet email services and software solutions, ING Beijing invested USD 3 million in ChinaGo in April 2000. APFS is a nationwide

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radio paging service operator. The radio paging industry in China has suffered from severe competition from mobile phone operators due to the increasing affordability of mobile phones in recent years. ING Beijing invested USD 7.8 million in APFS in 1995. After providing for the above two investments, ING Beijing's remaining portfolio includes Beijing Far East Instrument Co., Limited ("Far East"), Skyworth Digital Holdings Limited and China Property Development (Holdings) Limited ("CPDH").

Far East is one of the leading instrument manufacturers in China. After a slow down of the company's business in the late 90s affected by increasing competition from imported products, the company has completed its restructuring process. Its joint venture, Beijing Rosemount Far East Instrument Co. Ltd., ("Rosemount") which produces advanced industrial instruments, is showing result. Far East generated a net profit of Rmb 2.75 million for the year ended 2002.

In March 2002, ING Beijing entered into a conditional agreement to sell 9% out of its 35% equity interest in Far East to a strategic partner for a consideration of Rmb 14 million. The consideration is payable over a period of 5 years. The strategic partner has also acquired a further 16% equity interest in Far East from its holding company. The introduction of the strategic partner is intended to help Far East to move into the business of large system integration and supply of electrical systems to the property sector. The strategic partner is one of the biggest property developers in Beijing, which develops over 1.9 million square meters of property area in 2001.

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The continuous economic growth and the government's policy to encourage home purchases to speed up housing reform have resulted in strong demand for housing in the domestic market in China. ING Beijing has thus identified property sector as one of its new investment area. In February 2002, ING Beijing established CPDH and in April allocated USD 1.0 million to fund two residential property development projects in Beijing. A third project was added later in August 2002. The three projects are:

## Pacific Town Project

Pacific Town Project is a high-end residential development project with mixed town houses and apartments design. The project is located within the prestigious Lido area at the northeastern corner of Beijing outside the Fourth Ring Road. The area is popular with foreign expatriates, three major hotels and a number of international schools are situated at such area. River Ba runs along the southern side of the site. The Beijing International Airport, CBD and Yansa Business District are all within 10 minutes drive by car.

Pacific Town covers a site of 129,800 square meters. The projects plans to build 240,000 square meters residential area and 100,000 square meters commercial area. The residential development includes 60,000 square meters of town houses and 180,000 square meters of high-rise apartments.

First phase of the project will develop 80,000 square meters of high-end residential apartments targeting the pre-sale to begin in early 2004.

## West Mountain Badachu Project

Beijing Guan Jing New Town Community is one of the largest sites dedicated for residential community development in Beijing with gross floor area of over 1.5 million square meters. Located in proximity of Beijing's West Mountain District, the Community spreads from the Fifth Ring Road to the foot of West Mountain.

Located next to the West Fifth Ring Road, the Community is well connected by Beijing's road infrastructure together with easy access to Beijing Financial Street District, Zhongguangcun Business District, and West Mountain scenery spots.

First phase of the project will focus in high-end residential development covering two sites with total land area of 168,600 square meters, and gross floor area of 440,900 square meters.

## Taiyanggong F Zone Project

Taiyanggong F Zone Project is a high-end residential development project close to Shun Jing Golf Course, the only 9-hole golf course (planning to further upgrade to 18-holes) within the Fourth Ring Road in Beijing. Located in the northeastern part of the City, next to the northern Fourth Ring Road, the project is in proximity to Asian Games Village business district and the Third Embassy District. It is also easily accessible to the Airport Expressway and within 15 minutes drive to the Beijing International Airport.

Taiyanggong F Zone Project covers a site area of 107,500 square meters. The total planned gross floor area to be developed is to reach 308,120 square meters, including 276,900 square meters of residential area and 31,220 square meters of related facilities.

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During the year, ING Beijing's interest in CPDH was reduced to approximately 30% as a result of issue of new shares to a strategic co-investor participating in the property projects. The Pacific Town Project is now at its planning stage. The other two investments in West Mountain Badachu Project and Taiyanggong F Zone Project are pending approval from local authorities.

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**2002 ECONOMIC OVERVIEW** For the year 2002, China achieved a record trade surplus of USD 30.4 billion, with export increased 22.3% compared with the year 2001. Retail sales was 8.8% higher while consumer price index fell by 0.8%. Along with the fast expanding economy, the country's tax revenue increased by 12.1% compared to a year ago.

In Beijing, GDP grew 10.2% in the year 2002 to reach Rmb 313 billion. The value added industrial production increased 7.9% to Rmb 87 billion. In the years up to the 2008 Olympics, the government planned to invest Rmb 45 billion in environmental protection projects. The China Construction Bank will provide USD 1 billion for the proposed No. 5 subway in Beijing. This is part of the government plan to invest USD 7 billion in eight light railway projects over the next six years. A total of new 1,370 foreign funded businesses were established in Beijing in 2002, up 19.4%.

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**BEIJING'S NEW 2008 TARGET** The Beijing Municipal Government has pushed ahead its 2010 targets forward to 2008 to facilitate the hosting of the Beijing Olympic Games. Such aggressive targets will not be met without a rapid growing real estate market. Per capita GDP is targeted to reach USD 6,000 by 2008. The growth will be led by fixed asset investment. The real estate sector accounted for 54.5% of fixed asset investment in 2002.

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**NEW POLICY ANNOUNCED TO ENCOURAGE HOME PURCHASE** A new tax rebate policy was announced in February 2003, showing the government's eagerness to encourage growth in the property sector. With effect from 1st March 2003, senior management working in foreign invested enterprises in Beijing is entitled to individual income tax refund when they purchase car or home property. The tax refund is computed based on 80% of the income tax paid during last year. The highest refund tax might be up to the total amount of the price of a car or a home property.

The move is believed to be a strong push to the high-end property market. By the end of 2001, the total foreign invested companies operating in Beijing reached 5,281, adding the representative offices of foreign companies in Beijing, the total number of foreign entities based in Beijing amounted over 12,000. It is estimated that the tax incentive policy will trigger new demand for high-end properties in Beijing, from the applicable candidates of the policy taking advantage of the tax rebate.

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<b>OTHER POLICIES ANNOUNCED SINCE JULY 2002:</b>	July 2002	Requirement of Government auction for all land transfers, thus controlling the supply of land to the market.
	July 2002	Lowered property deed tax from 4% to 1.5% to stimulate property demand.
	Sept 2002	Allowing banks to start mortgage lending to second hand properties, encouraging the development of the secondary market. This is expected to generate new demand of new homes from wealthy families wanting to upgrade their living.
	Sept 2002	Merging domestic and overseas sale markets. Allowing foreigners to enter the domestic property market which previously only open to local buyers.
	Oct 2002	Subsidizing mortgage payments to reduce mortgage rate from 5% to 4% for all provident fund holders.
	Feb 2003	Tax rebate to foreign expatriates working in Beijing for purchase of residential properties.

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**FUTURE PROSPECTS** With the country's robust GDP growth, the property market is likely to enjoy healthy development as people's living standard continues to improve. Together with the government's announced new measures to boost the property market, all these led to our belief that the Beijing property market will have healthy development in the years ahead. Together with our years of knowledge in the Beijing market and our relationship with local companies, we will continue to look for opportunities in the property sector and are confident that the sector will bring satisfactory return to our shareholders. The Directors are both confident and optimistic on the prospects of the Group.

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