Review of 2003 Results

During the financial year under review, the Group posted a loss of HK$1,711.0 million as compared to profit of HK$137.1 million during 2002. The substantial setback in operating performance was the consequence of increased provisions required, revaluation deficits suffered and decline in operating results from the Group's operating segments.

Analysis of Attributable operating profit ("AOP")/(loss)

	FY2003 HK$'000	FY2002 HK$'000
Property sales		
Commodity housing	**(181,586)**	(10,657)
Fixed-return properties	—	124,476
Rental operation	**66,510**	71,236
Hotel operation	**4,225**	21,658
Land sales	**2,565**	65,811
Property management services	**(12,843)**	(10,609)
Attributable operating (loss) ("AOL")/AOP before provisions, revaluation deficits and finance costs	**(121,129)**	261,915
Less: Provisions and revaluation deficits	**(1,327,966)**	(45,251)
Finance costs — project loans	**(103,468)**	(16,872)
AOL/AOP	**(1,552,563)**	199,792
Finance costs — corporate loans	**(41,982)**	(13,644)
Corporate administrative expenses	**(124,307)**	(116,170)
Bank and other interest income	**7,824**	67,149
(Loss)/profit attributable to shareholders	**(1,711,028)**	137,127

Property Sales

Commodity housing

During the year, the Group completed 717,600 sq.m. of commodity housing, an increase of 50% from that of FY2002. The overall sales volume of commodity housing also increased by 49% to 560,900 sq.m., 71% of which was from sales of projects completed during the current year. Despite the increase in both completion and sales volume, the Group was not able to achieve improvement in AOP. The AOL recorded was primarily attributable to unsatisfactory sale margin of both inventory and newly completed projects as compared with that of FY2002's. Over 59% of prior years' inventory sold and 32% of current year's completed projects sold during the year had negative sale margin. Faced with the pressure of increasing supply, the real estate market in China has continued to operate under a challenging and competitive environment. This stringent market condition has prevailed especially in Guangzhou and Beijing, and the competitive pricing effect further undermined the slim sale margin of our property units.

Development of commodity projects completed during FY2003

Projects	Usage	Total GFA (Sq.m.)	Attributable Interest (%)
Beijing New World Garden Phase I	O	13,000	70
Tianjin Xin Chun Hua Yuan Development Phase II	R, C	34,585	60
Shenyang New World Garden Phase IB	R	19,102	90
Wuhan Changqing Garden Phase IV	R, C, O	294,874	60
Jinan Sunshine Garden Phase I	R	37,014	65
Hefei New World Garden Phase II	R, C	16,257	60
Guangzhou Covent Garden Phase IB	R	10,000	60
Guangzhou Covent Garden Phase II	R	12,484	60
Guangzhou Fangcao Garden Phase I	R, C	48,202	40
Guangzhou Dong Yi Garden Phase III	R	52,683	100
Guangzhou Park Paradise Phase IIA & IIB portion	R, C	92,711	60
Guangzhou Xintang New World Garden Phase II	R	13,918	60
Huiyang Palm Island Golf Resort Phase II	R	4,484	34
Huiyang Palm Island Golf Resort Phase III	R	18,734	34
Zhuhai New World Riviera Garden Phase I	R	8,992	60
Zhaoqing New World Garden Phase I	R	40,542	40
Total		**717,582**	

R : Residential
C : Commercial
O : Office

During the year under review, the Group had successfully sold out inventory units of over 162,000 sq.m., with an increase of 63% as compared to that of previous year. The remaining inventory as at 30th June 2003 reached 563,000 sq.m. It is imperative that the Group should endeavour to clear up the inventory in the immediate short run. The Group has adopted the strategy to sell the inventory units below market price and sacrifice trading losses to achieve the benefit of quicker return of cash flows, immense inventory sales generated inevitable higher AOL.

For the preparation of launching the first phase of a number of sizable projects in Guangzhou and Beijing in May 2003, a series of marketing campaign were launched after Chinese New Year in anticipation of the usual seasonal bloom around May. We had incurred comparatively higher marketing expenses during the period but the effect of these marketing campaigns could not be materialised as the launching of these projects were ultimately deferred after the outbreak of SARS since March. The SARS epidemic caused temporary delay and disruption to our sales plan, the launching activities were nevertheless resumed after July and the marketing sentiment was then gradually picked up.

In FY2004, the Group will complete 14 projects in 10 cities with a total GFA of 1,109,600 sq. m.. Of the projects to be completed in FY2004, almost 40% of the launched area was pre-sold as of September 2003. Completion of the Group's projects in the Pearl River Delta is expected to reach a peak in coming years with five projects in Guangzhou and four projects in Zhuhai, Shunde, Huiyang and Zhaoqing. These projects are just on time to cater the increasing demand from the fast-growing Pearl River Delta Region.

Commodity housing (continued)

Development of commodity projects to be completed in FY2004

Projects	Usage	Total GFA (Sq. m.)	Attributable Interest (%)
Chateau Regalia Beijing	R	121,505	100
Beijing Xin Kang Garden Phase III	R, C	105,270	70
Beijing Liang Guang Road Blocks 3 & 4	R, C, O	82,625	70
Tianjin New World Garden Phase I	R, C	70,300	60
Tianjin New World Garden Phase II	R, C	82,000	60
Shenyang New World Garden Phase IC	R	118,336	90
Dalian Manhattan Tower II	R, O	52,327	88
Wuhan Menghu Garden Phase I	R	12,186	100
Nanjing New World Centre Phase I	R	68,680	92
Guangzhou Covent Garden Phase II	R, C	102,089	60
Guangzhou Xintang New World Garden Phase II	R	49,721	60
Guangzhou Central Park-view Phase I, II portion	R, C, O	190,879	91
Huiyang Palm Island Golf Resort Phase IV	R	33,504	34
Shunde New World Convention & Exhibition Centre Phase II	R	20,173	35
Total		**1,109,595**	

Fixed-return properties

In September 2002, the State Council had announced that all the guaranteed return arrangement between PRC enterprises and their foreign partners had to be cancelled by the end of 2002. The cessation of contribution from fixed-return properties during the year has further crippled the Group's AOP from property sales. The Group had taken steps to re-negotiate with the relevant Chinese partner the new profit sharing arrangement of undeveloped site of fixed-return projects. Consequently, no contribution was posted in FY2003 against the HK$124.5 million AOP in property sales of fixed-return projects in FY2002.

Rental Operation

The Group continued to place emphasis in building up strong rental base and achieved the completion of over 116,000 sq.m. of investment properties during the year comprising a well-mix of shopping arcades located in Dalian and Guangzhou and a phase-completed office premise located in a prime location of Shanghai city centre. The Group immediately secured full tenancy of the shopping arcades and had posted positive contributions to AOP from the successful leasing of Guangzhou New World Oriental Garden shopping mall and Dalian New World Plaza Phase II. However, the above increase in AOP was not sufficient to mitigate the AOL from the leasing of Apartment Belvedere in Shanghai, which has remained low occupancy albeit slowly picking up since its launching in March 2002.

Investment properties completed during FY2003

Projects	Usage	Total GFA (Sq. m.)	Attributable Interest (%)
Dalian New World Plaza Phase II	C	69,196	88
Shanghai Hong Kong New World Tower	C, O	28,343	44
Guangzhou New World Oriental Garden Phase I	C	18,889	100
Total		**116,428**	

Currently, the Group has 6 investment property projects under construction, with a total GFA of 504,200 sq.m..

In FY2004, two investment projects located in Nanjing and Shanghai, with a total GFA of 218,100 sq. m. are scheduled to be completed. After the completion, it will enhance the Group's AOP from rental operation.

Investment properties to be completed in FY2004

Projects	Usage	Total GFA (Sq.m.)	Attributable Interest (%)
Nanjing New World Centre	C ,O	108,092	92
Shanghai Hong Kong New World Tower remaining portion	C ,O	110,049	44
Total		**218,141**	

Hotel Operation

The Group's hotel operating result was disappointing in FY2003 with an 80% decrease in AOP to HK$4.2 million. The SARS outbreak during the last quarter caused material adverse impact on our hotel operations. The hotel occupancy rate in our hotels in Beijing, Shenyang and Shunde had sharply dropped to single digits and our immediate cost saving measures taken could not mitigate the overall decrease in AOP owing to the sustained level of fixed costs. Apart from downward adjustments in AOP of our existing hotels, the Group had run into this unexpected bad timing to soft-open a nearly-completed hotel, Shanghai Mayfair Hotel, in March 2003. Owing to the SARS epidemic, the soft operation was consequently suspended after few weeks' operation but its start-up costs were inevitably absorbed in the current year. The hotel was subsequently grand-opened in September, satisfactory occupancy is sustained.

Apart from SARS effect, it was a challenging year for both the New World Hotel Shenyang and New World Courtyard Shunde Hotel with the keen competition from the newly opened hotels in close proximity. The over supply of guest rooms resulted in the reduction of room rates achieved, which directly affected the revenue stream.

Land Sales

The Group entered into an agreement with a local consortium in January 2003 to sell a 12,900 sq.m. land lot in Tianjin.

Property Management

The increase in AOL from property management to HK$12.8 million during the period under review arose from continued increase in scope of services provision for newly completed projects. We have established our own property management teams in Beijing, Shenyang, Shanghai and Guangzhou to ensure provision of quality property management services to our residents of our completed projects.

Provisions and Revaluation Deficits

The emergence of a number of challenging but unavoidable factors in the real estate market and hotel industry in China during the year under review led to the necessity to take up provisions and revaluation deficits which dampened our current year's results.

Provisions and Revaluation Deficits (continued)

Breakdown of provisions and revaluation deficits

	FY2003 HK$'000	FY2002 HK$'000
Provision for completed properties	**(70,894)**	(17,228)
Provision for properties under development	**(495,917)**	3,200
Revaluation deficits of hotel properties	**(584,109)**	(2,430)
Revaluation deficits of investment properties	**(41,412)**	(14,700)
Provision for fixed-return receivables	**(45,643)**	(14,093)
Provision for fixed-return properties	**(89,991)**	—
	(1,327,966)	(45,251)

Provision for completed properties

As a result of the Group's strategy to expedite the turn-around of inventory even at negative margin to improve cash return from the projects, provisions of HK$70.9 million was required for completed properties as at 30th June 2003. Guangzhou, which tops the Group's property completion schedule by region in the next two years, has a very competitive and matured property market. In 2002, the property transactions reached a record high of over 10 million sq.m., up 32.4% against 2001. The competitive market condition coupled with the over supply of commodity properties in Guangzhou inevitably resulted in fierce price-cut among developers to achieve faster turn-around of stock. Thus, provisions on unsold inventory from Guangzhou Dong Yi Garden, Guangzhou Park Paradise Phase II, accounting for 59% of current year's provision for completed properties, are required.

Provision for properties under development

Provision for properties under development of HK$495.9 million had been made for the potential losses arising from the launched pre-sale projects and for those properties under development with intended pre-sale price or open market prices below their carrying costs. As at 30th June 2003, the Group's assessment reflected that such provisions were required for Tianjin New World Garden, Nanjing New World Centre, and Guangzhou Park Paradise Phase II portion, Beijing New World Garden Phase II and Shenzhen New World Yi Shan Garden. The Group's pricing strategy had been adopted with a view to maximising the market penetration and to sustain high sales momentum. In an effort to achieve marketable atmosphere and which must be assisted by gradual establishment of community synergy in our projects, the Group has determined to launch the properties to market with intended selling price setting below the expected market price in order to assure successful kick-off with penetrating tendency. As reaction to take the edge off the imminent pressure of increasing imbalance of supply, the Group has been resolute to maintain this pricing strategy to avoid piling-up of new inventory and to forgo the opportunity to attain higher return.

Revaluation deficits of hotel properties

The Group had suffered from down-turn of hotel industry in Mainland China, an aggregate amount of HK$584.1 million revaluation deficits on valuation of our portfolio was taken up during the current year.

The hotel industry in China has been competitive. The continuing increase in establishment of hotel operations in China by both foreign and local hoteliers has posed great imbalance in supply and demand in hospitality sector of China. The outbreak of SARS in March further caused disastrous impact to the industry. The devaluation of our hotel portfolio has indicated the tough operation environment and the SARS-induced prolonged adverse impact. The carrying costs of our hotel portfolio could no longer be sustainable and comparable to the existing unfavourable open market value of the hotels, a downward adjustment on the hotel's costs were required to reflect the existing down-falling situations.

Revaluation deficits of investment properties

As at 30th June 2003, the Group had recorded HK$41.4 million revaluation deficits on valuation of our investment property portfolio with reference to open market value at year end.

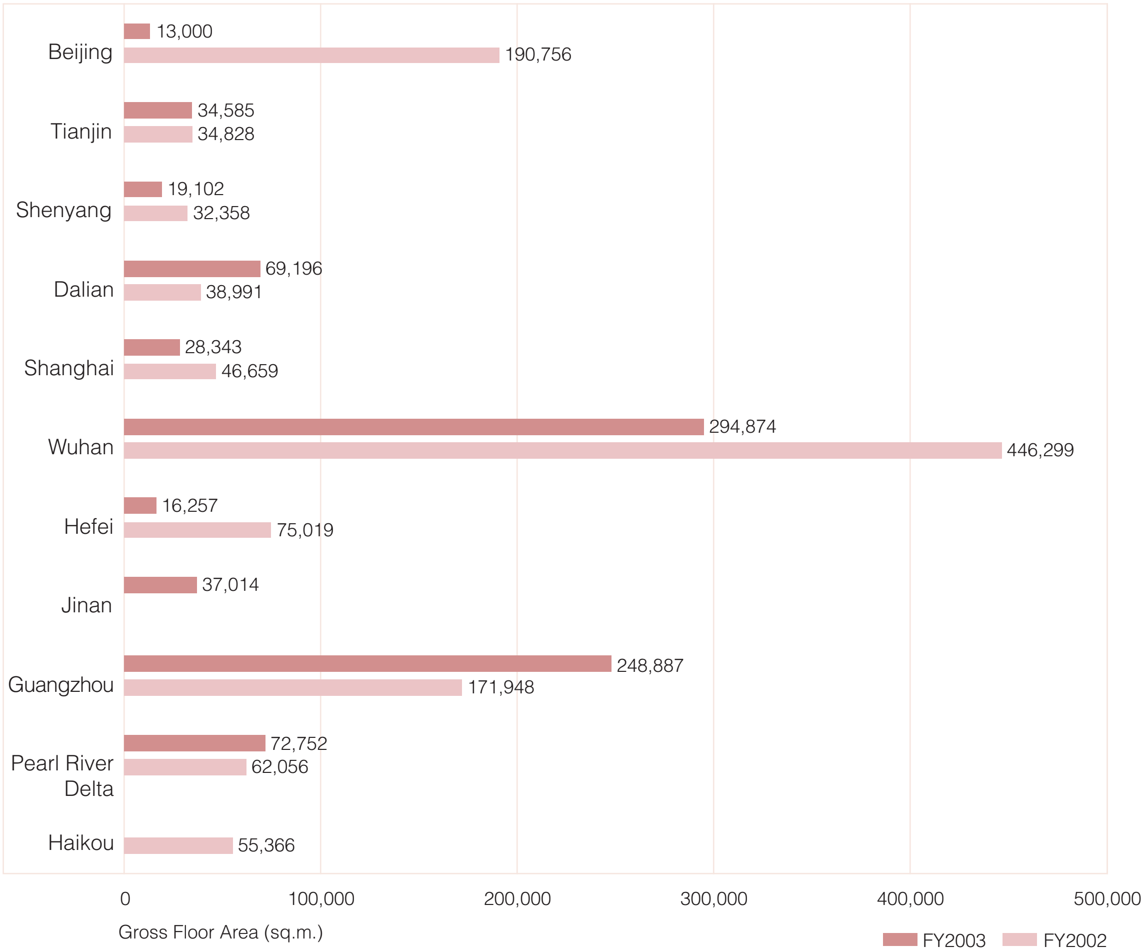
Provision for fixed-return properties

Upon the official enforcement to abolish fixed-return arrangement between PRC enterprises and their foreign partners, the Group had actively initiated discussion with the joint venture partners of projects with fixed-return covenant agreed in the original joint venture contracts. As part of the negotiation to deal with this change, the Group had to nullify the fixed-return covenants and it had been agreed that the remaining undeveloped phases of these projects would be developed as commodity housing and the profit sharing ratio would follow that of commodity housing as previously defined in the original contracts. Such change in profit sharing ratio were applied retrospectively from the date of establishment of the respective joint ventures and hence applied to previous completed phases. Driven by this change in legal status, we had carefully reviewed all carrying values of inventories of completed phases of previous fixed-return projects. The results of our assessment revealed that a provision of HK$89.9 million on the carrying value of Tianjin Xin Chun Hua Yuan was required and an outstanding fixed-return receivable of HK$45.6 million from Guangzhou Park Paradise Phase I was considered not recoverable, full provision had been made.

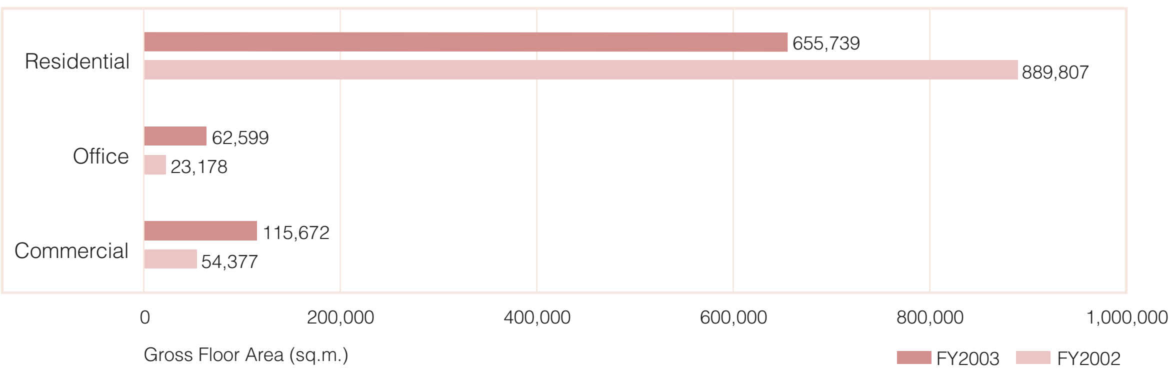
Finance Costs

In FY2003, finance costs increased to HK$103.5 million and HK$42.0 million for project loans and for corporate loans respectively. The effort put to speed up completion and development pace increased unavoidably the higher absorption of finance costs. Upon the Group's decision to cease further capitalisation of interest expenses into future phases of some sizable projects, especially for projects in Beijing, Guangzhou and Shenyang, higher proportion of interest expenses were charged off directly in the current year. This cessation of capitalisation of interest costs revealed the Group's determination to eliminate the interest cost burden for our future phases of projects.

Completion of Gross Floor Area by Location — Commodity housing and investment properties



Completion of Gross Floor Area by Usage



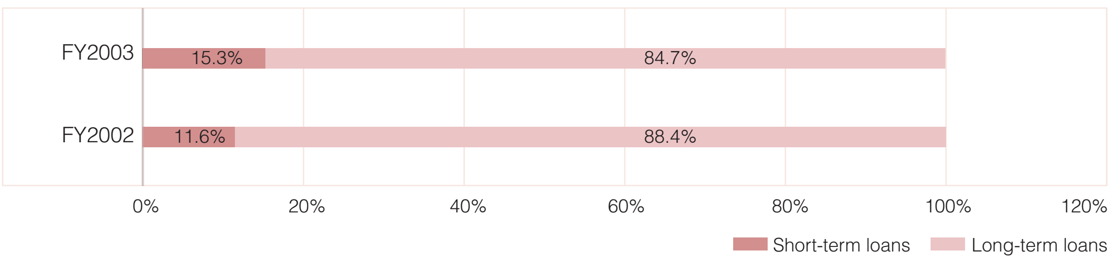
Liquidity and Capital Resources

As at 30th June 2003, the Group's cash and bank deposits amounted to HK$1,330 million. (30th June 2002: HK$1,451 million). Its consolidated net debt amounted to HK$5,122 million (30th June 2002: HK$4,017 million), translating into a gearing ratio of 32% (30th June 2002: 22%). The increase in net debt reflected the Group's financing requirement to match the accelerated development pace. The borrowing requirements thus bear no direct connection to any seasonality factors.

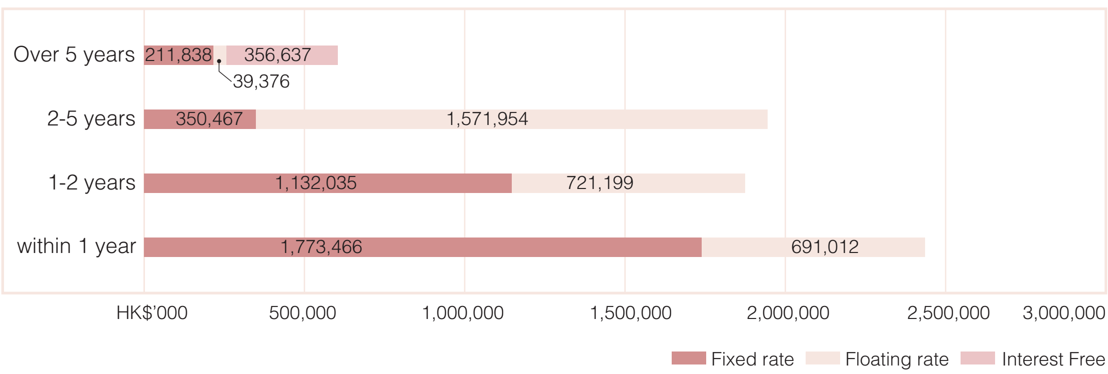
The Group maintained a balanced debt profile with adequate risk diversification through specifying the preferred mix of fixed and floating rate debt, the permitted currency exposure and a well-balanced spread of maturity. The Group's capital structure strikes a balance between equity, bank loans, loans from fellow subsidiaries and loans from minority shareholders of certain subsidiaries of the Group. The Group policy is to leverage funding by straight debts rather than quasi-debt financial instruments and to borrow in local currencies where possible. The proportion of bank loans denominated in Renminbi that the Group has procured directly in Mainland China are continuously being increased to mitigate the foreign currency exposure of the Group.

The amount of debt due within the FY2004 amounts to HK$2,464 million, which should be served by our cash on hand of HK$1,330 million and by improved property sales proceeds and rental income.

Source of Borrowings



Interest Rate and Maturity Profile

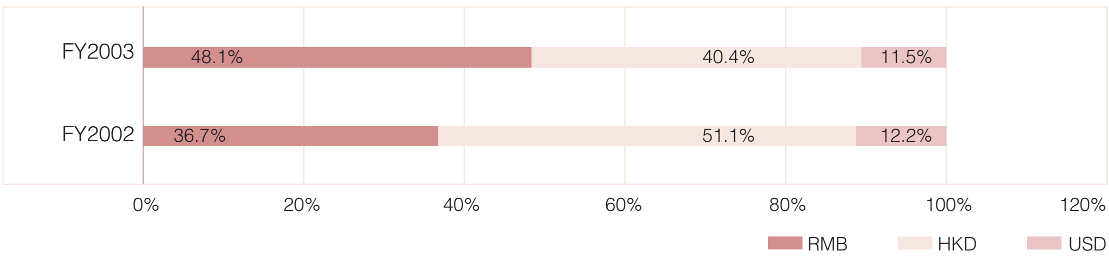


Liquidity and Capital Resources (continued)

As at 30th June 2003, 28% (30th June 2002: 25%) of the total outstanding loans was secured by the Group's assets.

Over 44% (30th June 2002: 57%) of the Group's total debts are on a floating rate basis, whilst fixed rate borrowings are mainly related to the Renminbi loan facilities. As at 30th June 2003, the Group's committed unutilized bank loan facilities amounted to HK$734 million (30th June 2002: HK$514 million). In October 2003, the Group obtained an unsecured revolving credit facility of HK$1.5 billion from a fellow subsidiary for a period of 18 months.

Currency Profile of Borrowings



Foreign Currency Exposure

The Group's property projects are all located in Mainland China. Funding for their development is inevitably achieved by cross-border investments through numerous Sino-foreign owned joint ventures in the form of registered capital injected into these joint ventures and shareholder's loan advances. As a result of this locality restriction, the return of such funding is either through repayment of shareholders' advance, interest costs or cash dividend. The funding made from Hong Kong to Mainland China is all denominated in either US dollars or Hong Kong dollars and this quasi-capital investment funding is legally required to go through the registration process in Foreign Exchange Bureaus in China before being converted to Renminbi for funding the development costs. The return of these fundings out of China has to be made in the same original currency remitted from Hong Kong and has to go through the releasing registration procedures. Hence the Group is effectively not exposed to foreign currency risk on return of our investments. Owing to the unique nature of China's foreign currency control system, and our Group's view on the foreseeable continuity of the Hong Kong Dollar peg, the exposure of foreign currency fluctuation is not regarded as substantial. The Group has hence conducted minimal hedging activities.

Contingent Liabilities

As at 30th June 2003, the Group has contingent liabilities of approximately HK$2,068,623,000 (30th June 2002: HK$1,381,447,000) relating to corporate guarantees given in respect of bank loan facilities extended to certain associated companies and jointly controlled entities. The rise in contingent liabilities indicates the continuing financing requirements of the Group's property projects.

Major Acquisitions and Disposals

On 24th February 2003, the Group disposed of its entire interest in Beijing Lai Loi Garden to Chow Tai Fook Enterprises Limited for a consideration of approximately HK$347.8 million resulting in a net gain on disposal of HK$47.0 million.

Details of the Charges on Group's Assets

As at 30th June 2003, the Group's investment properties, assets under construction, completed properties held for sale, properties held for development, properties under development and bank deposits of HK$297,862,000 (30th June 2002: HK$220,484,000), HK$910,412,000 (30th June 2002: HK$340,779,000), HK$116,642,000 (30th June 2002: HK$116,808,000) and HK$91,215,000 (30th June 2002: Nil), HK$ 808,478,000 (30th June 2002: Nil) and HK$427,635,000 (30th June 2002: HK$603,114,000) respectively have been pledged as securities for short term and long term loans.

Employees

As at 30th June 2003, the Group had 1,505 full-time employees. Remuneration of the employees are reviewed annually based on the assessment of individual performance. Share options, as part of basic remuneration package, have also been offered to key employees to strengthen loyalty to the Group.