BUSINESS REVIEW

For the year ended 31 December 2001, the Group remained very focused in its core rental business and concentrated its effort in consolidating and maintaining its market position in both the Hong Kong and Shanghai property markets. The Board was particularly delighted with the performance of the core Shanghai service apartment operation in achieving exciting rental growth for the seventh consecutive year whereas rental income from the Hong Kong property portfolio remained stable with an overall occupancy rate of close to 85% despite a very sluggish climate prevailing in the Hong Kong property market.

Against a background of unstable market sentiment in Hong Kong and the rest of the world especially after the traumatic event of September 2001 in the US, the Group still performed well with an annual turnover of HK$111 million and a net profit attributable to shareholders of HK$20 million.

Hong Kong

Due to the negative impacts of slackening economic growth in the US, the tragic event of 11 September and the continuous downturn of the local economy, the overall property market in Hong Kong has shown signs of sluggishness throughout the whole of 2001. It is anticipated that the local property market will remain weak at least for the remaining part of 2002 and confidence will only be rebuilt in 2 to 3 years time.

Against such setback in market sentiment, the Group's Hong Kong property portfolio, mainly comprise Multifield Building at North Point, Multifield Plaza at Tsimshatsui and Multifield Centre at Mongkok, continued to perform up to our expectation with an overall occupancy rate of close to 85%. As the Hong Kong market as a whole is still going through a consolidation phase, the Group has continued to adopt a very selective and cautious investment strategy regarding property investment to enable the Group to maintain its niche and strength in the market.

During the year under review, no acquisition nor disposal has been made and instead, an active program has been adopted to renovate and improve the quality of the property portfolio on hand in order to enhance its value and attractiveness to potential customers.

Shanghai

Despite an abundant supply of service apartments in Shanghai, over the years, the Group has already stood out to become one of the most renowned "5 stars" operators and owners in Shanghai with a portfolio of over 400 service apartments and houses under its management. The Group's Shanghai service apartment chain, operating under the name of "Windsor Renaissance", has already established a firm footing in Shanghai and has so far received overwhelming success and most of the properties under its management are rented out as soon as they are released to the market. The rental return for the past few years was strong and it is expected that this trend would continue. As large multinational corporations continue to march into China especially after China formal accession to the WTO, the need to house their executives is ever increasing, especially for Shanghai, the financial hub of China. We strongly believe that the Group is heading the right direction and is extremely well placed to capitalise on this exciting opportunity.

"Windsor Renaissance" is always regarded by the expatriate community as one of the leading and best performing service apartment owners and operators in Shanghai. For 2001, the rental from Shanghai was as expected very strong and accounted for 60% of the Group's turnover and at present, the overall occupancy rate stands at close to 98%.

The Group will from time to time strengthen various aspects of its management. Apart from boosting the motivation of its staff to better take advantage of any opportunities in the horizon, the Group will also strive to enhance the quality of its services and to innovate new services to its customers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong and Shanghai. As at 31 December 2001, the Group had outstanding bank loans amounting to HK$688 million, which were secured by legal charges on certain investment properties and properties held for sale in Hong Kong and Shanghai. As at 31 December 2001, out of the total outstanding bank borrowings of approximately HK$688 million (out of which HK$580 million were denominated in Hong Kong dollars and the remaining balance in Renminbi), HK$44 million and RMB17 million are repayable within one year, HK$44 million and RMB20 million are repayable in the second year with the remaining balance repayable beyond the second year. The Group's cash and bank balances and short term bank deposits as at 31 December 2001 amounted to approximately HK$25 million. The Group's gearing ratio as at 31 December 2001 was approximately 41% based on the total bank borrowings of approximately HK$688 million and the aggregate of the shareholders' funds, minority interests and total bank borrowings of approximately HK$1,660 million.

PERSONNEL

As at 31 December 2001, the Group had a total of 330 employees, of whom 300 were based in China and 30 in Hong Kong. The remuneration packages of the Group's employees are mainly based on their performance and experience, taking into account current industry practices.

In addition to the provision of provident fund scheme, medical allowance, in-house and external training programs, discretionary bonus and share option scheme are also available to employees based on their performance. The remuneration policy and packages of the Group's employees are reviewed regularly.

PROSPECTS

The global economic slowdown has undermined the public confidence, affecting the progress of revitalization of the property market in Hong Kong. It is unquestionable that sentiment in the property market remained weak in 2001 and the Board remains cautious about the outlook for the balance of 2002 as the recent seven times of interest rate cuts within the 2001 financial year has failed to re-engine the current vulnerable property market in Hong Kong. The Board does believe that a strong recovery in the Hong Kong property market in the near future is difficult if not impossible and the revitalization of the Hong Kong property market could only be materialized if the public confidence is returning and the local economy is approaching to a tangible recovery with an apparent improvement in real GDP and unemployment rate.

However, in the longer term, with China's admission into the WTO and the award of 2008 Olympic Games to Beijing, China is poised to boost foreign investment into Shanghai as well as Hong Kong. The Board has confidence in the long term economic prospects of Hong Kong and China and is of a strong belief that the Group's Hong Kong and Shanghai property portfolio will continue to perform well and have a steady growth in the long run. Hence, this core business is expected to generate a stable stream of income to the Group.

The Group remains well positioned to deliver solid performance into the future and at present, the Group is concentrating on the development of its prime residential land bank in Shanghai of 54,550 sq.m. of which the Group has a 48% equity interest. The first phase of 25 houses will be released in June this year and upon completion of the whole project in late 2002, it is expected that 126 detached houses and townhouses of first class hotel quality will be added to its Shanghai property portfolio with an additional annual rental of close to HK$75 million.

For the remaining part of 2002, the Group will actively select new projects and search for appropriate land bank in Shanghai for future development should opportunities arise.