

Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31st March 2002 to the shareholders.

REVIEW OF OPERATIONS AND FUTURE PROSPECTS

Results

Turnover for the year amounted to HK\$867 million, representing an increase of 16% from last year. Loss attributable to shareholders had reduced to HK\$154 million, representing a 67% decrease from HK\$468 million of last year. Net assets decreased by HK\$0.1 billion to HK\$2.8 billion, or HK\$0.37 per share.

Property sales and leasing

The Group's shareholding in Asia Standard International Group Limited ("Asia Standard") remained at 53.4% as at 31st March 2002. The Group shared an attributable loss of HK\$256 million from Asia Standard, whose results were affected by increase in provisions for its property projects. During the year, Asia Standard sold majority of its remaining residential inventory. Two new developments were launched to market towards the end of the financial year, the luxurious Royalton II at Pokfulam and mass residential Oakridge at Shaukeiwan. Only a small percentage of these sales were recognised in the current year despite over 70% are sold by now. Majority of these sales would be recognised in the coming financial year.

Rental income increased by 56% to HK\$61 million mainly due to the renovation of Asia Standard Tower in last financial year. Occupancy substantially picked up since then. Leasing activities for the office building, 8 Wing Hing Street in Causeway Bay, commenced in January 2001 and is now over 90% let. Rental income for Asia Orient Tower and China United Centre remained approximately the same.

The Group has been actively pursuing the lease modification and land premium negotiation of six development sites totalling approximately 1,200,000 sq.ft. gross floor area. In April 2002, two of them (totally 175,000 sq.ft.) were successfully concluded at HK\$208 million.

In January 2002, Asia Standard disposed of its 40% interests in the Panyu development project at a total consideration of approximately HK\$118 million. The transaction brought in a gain of approximately HK\$20 million to the Group.

Hotel

The terrorist attacks in America in mid September 2001 do have an adverse effect on the hotel industry. However, the situation in Hong Kong has been alleviated by the surge in visitors from the Mainland. In April 2001, the Hotel Group acquired a travel agency which contribute significantly to the Group's turnover, albeit with a small profit contribution. In September 2001, Empire Hotel Kowloon in Tsimshatsui commenced operations and became the Group's third hotel with 315 rooms. In March 2002, the Hotel Group acquired 100% interests of a restaurant chain operation from Asia Standard Group.

Investments

One of the Group's technology investments, Q9 Technology Holdings Limited, was successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in May 2001. Following the floatation, the Group's interests in the company was diluted from 40% to 32%, with a HK\$26 million gain and remains the single largest shareholder. The company has been successful in penetrating several major mobile phone and desktop phone manufacturers such as Nokia, TCL, Soutec, ZTE Corporation, Telsda, Utstarcom, Guauri, Helibond etc.

The Group maintains its 40% interests in China Infobank which possesses one of the largest database of Mainland business information. Users include universities, consultants, finance and banking corporations, professional companies and public relation firms. Efforts are concentrated in business penetration and streamlining operation.

The Group continues to invest in technology related ventures and recently acquired major interests in a web-based software developer and a biotechnology company. The former has developed quotation application software and enterprise logistics management system, with customers mostly located in the Mainland. The latter engaged in telemedicine / biotechnology and owns patent of a heart monitoring system which allow patients to record their heart condition anywhere and transmit the data to doctors through telephone lines and computer networks.

We have also participated in technology related opportunities in North America through our investment in NextCom Ventures, a venture capital partnership focusing on the communication and networking industries. This venture now invests in 4 product developments, ranging from ultra-wideband wireless connectivity application to technology that upgrade transmission performance of copper loop to fiber quality.

FINANCIAL REVIEW

The Group's interest cost reduced significantly by 35% resulting from the low interest environment during the year. At 31st March 2002, the Group's net asset value per share was HK\$0.370, compared with HK\$0.386 of last year. Gearing ratio arrived at 58% (2001: 48%) with a net debt of HK\$3,093 million and shareholders' funds plus minority interests of HK\$5,350 million.

All the Group's borrowings are in Hong Kong dollar except for the mortgage loan of the Vancouver hotel which is denominated in Canadian dollar. Accordingly, there is no exchange risk exposure, 80% of these borrowings were repayable after one year, with repayment schedules spreading over a long period of time to over 10 years.

As at 31st March 2002, properties with an aggregate net book value of HK\$6,212 million (2001: HK\$6,650 million) were pledged to secure banking facilities of the Group. The Group has also provided guarantees to banks and financial institution on credit facilities to jointly controlled entities, associated companies and third parties of HK\$416 million (2001: HK\$401 million).

In November 2001, Asia Standard redeemed HK\$251 million convertible bonds then due. In January 2002, Asia Standard has issued a HK\$290 million 5-year convertible bond to an existing shareholder — the Grosvenor Group of England.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March 2002, the Group employed a total of 618 full time employees, with over 93% working for the hotel subsidiary group. Their remuneration packages, which commensurate with their job nature and experience level, include basic salary, annual bonus, retirement and other benefits. There was no share options granted during the year.

PROSPECTS

At the moment, Hong Kong is experiencing historical low interest rate environment. People's affordability of mortgage payments is at all time high. The recent surge in transaction volume would improve the demand / supply situation. Rental yield has become attractive relative to cost of funds. Our Group is expecting the recovery of property market after a long time of set back.

With increasing trade between China and other parts of the world following its entry into the WTO, together with the liberation of gambling licence of Macau and the construction of the Disney Theme Park in Hong Kong, more visitors are expected to come to or transit through Hong Kong. We expect the Group's hotel operation would contribute more in the coming years.

The listing of Q9 Technology Holdings Limited is a major success of the Group's technology investments during the year. The Group will continue the effort to nurture other existing investments with the intent to have them become a publicly listed entities and also look for new investments when opportunities arise.

By Order of the Board

Fung Siu To, Clement

Chairman

Hong Kong, 18th July 2002