Chairman's Statement

Review of Operations

Due to the sustained slowing down of the US economy and political instability in some parts of the globe, the world economy in 2002 was adversely affected. Over the past few years, the Hong Kong SAR government has implemented a series of economic measures. However, due to the adverse external factors, transformation of the Hong Kong economy, sustained high unemployment rate, deflation and fiscal deficits, there is no clear sign of recovery for the Hong Kong economy. On the other hand, the PRC economy is one of the very few countries which continue to perform well in 2002. With its accession to the WTO, the PRC economy has become more international and market driven. The Board believes that the PRC economy will maintain its rapid growth in the coming years.

The Group has been increasing its investment in the PRC since 1997 and has been gradually moving its assets and businesses northward, achieving satisfactory results. The profit before tax contribution of the PRC property development business has been increasing rapidly and had a growth rate of 70% to HK$342 million in 2002.

As the Hong Kong SAR government is cutting its spending on infrastructure while the private sector investment is also shrinking, the Hong Kong construction market continues to contract in size and competition is intensified. Amid the unfavorable business environment in last year, the Group managed to secure new projects with a total contract value of HK$9.3 billion (including project management) and earned an encouraging profit before tax of HK$130 million.

Review of Operations *(cont'd)*

Last year, the Hong Kong SAR government implemented a number of measures in an attempt to boost the property market in Hong Kong. However, the property market showed no clear sign of recovery in the near future. The Group had to make a provision of HK$480 million in respect of certain property projects invested before 1997 which were still under development or held for sale. The value of investment properties of the Group has also been reduced by HK$130 million upon revaluation. Despite its satisfactory performance in the other business sectors and increase of the profit attributable to shareholders of the Company (before provisions and exceptional items) by 241% to HK$490 million, the Group only recorded a net profit of HK$61 million due to making of such provisions.

I. Property development

1. *Property sales*

Last year, the Group recorded sales of HK$4 billion from its property sales with an attributable gross floor area sold of 6.64 million square feet, representing an increase of 69% comparing to the previous year.

The Group achieved satisfactory results in property sales in the PRC where sales turnover increased by 60% to HK$2.8 billion while floor area sold increased by 57% to 5.27 million square feet. During the year, 6 projects with floor area of 4.86 million square feet were made ready for occupation, of which 75% representing 3.60 million square feet was sold at the end of 2002, amounted to sales of HK$1.5 billion. Sale of stocks was also good where 1.67 million square feet of floor area was sold, amounted to sales of HK$1.3 billion. During the year, 4 out of the 7 projects which are expected to be ready for occupation in 2003 have begun presale. At the end of 2002, a total floor area of 2.09 million square feet was sold for HK$1.2 billion, of which HK$0.9 billion was received.

In Hong Kong, only 80,000 square feet of floor area was sold and HK$0.3 billion was received.

2. *Properties completed and ready for occupation during the year*

The Group had a total of 7 property development projects completed on schedule during the year of 2002, of which 6 projects were located in the PRC and only one property project was in Hong Kong, known as Site B of Phase II of Olympic Station of Airport Railway, in which the Group has 10% interest.

District	Name and address of the property	Usage	Percentage of interest attributable to the Group
Hong Kong	Central Park, Site B of Phase II of Olympic Station of Airport Railway	Commercial/ Residential	10%
Shenzhen	Sunny Palm, Phase I Qianhai Road, Nanshan District	Residential	63%
Guangzhou	Cannes Garden, Phase I, Dong Pu Town North of Guangshen Railway	Residential	86%
Guangzhou	Elegant Town, Phase I, A1, 5-6 1 Fang Zhi Road, Hai Zhu District	Residential	100%
Shanghai	Zhong Hai Xin Yuan, Phase III 111 Qin Zhou Nan Road, Xu Hui District	Residential	99.5%
Shanghai	Die Cui Villa, Xu Jing Xiang, Qingpu County	Residential	100%
Chengdu	Grandeur Vista, Phase I Zijing West Road, Hi-Tech Development Zone	Residential	100%

Review of Operations *(cont'd)*

I. Property development *(cont'd)*

3. *Properties to be completed for occupation in 2003*

The Group plans to complete 7 projects in the PRC in 2003, of which two projects are located in Beijing and Shenzhen respectively and one in Guangzhou, Shanghai and Chengdu respectively. The total floor area of properties to be completed for occupation in 2003 is about 10 million square feet, of which 20% was pre-sold. The project in Stanley, Hong Kong in which the Group has 30% interest, is anticipated to be completed by the end of 2003, and is expected to presell in the middle of the year.

City	Location	Name of the property project	Intended usage	Percentage of interest attributable to the Group
Hong Kong	Stanley	Regalia Bay	Residential	30%
Shenzhen	Nanshan District	Sunny Palm, Phase II	Residential	63%
Shenzhen	Nanshan District	The Seaview	Residential	79%
Guangzhou	Hai Zhu District	Elegant Town, Phase II	Residential	100%
Shanghai	Luwan District	Haiyu Garden	Residential	100%
Beijing	Haidian District	Zhonghai Fuyuan	Residential	63%
Beijing	Xicheng District	Zhonghai Kaixuan, Phase I	Commercial/ Residential	44%
Chengdu	Hi-Tech Development Zone	Grandeur Vista, Phase IV	Residential	100%

4. *Land reserve*

During the year, the Group acquired 7 pieces of land in main cities in the PRC. On the basis of the Group's attributable interest, about 12 million square feet additional floor area was available for development.

City	Location	Intended usage	Percentage of interest	Development area ('000 sq. ft.)
Shenzhen	Henggang Central District	Residential	84%	2,700
Shanghai	Zhaoxiang Town, Qing Pu	Residential	100%	900
Beijing	Shahe Town, Changping District	Residential	72%	900
Beijing	Guanghua Road, Chaoyang District	Commercial/ Residential	75%	1,200
Beijing	Dongbei Wang Village, Haidian District	Residential	100%	1,600
Beijing	Wang Si Ying Village, Chaoyang District	Residential	95%	2,300
Beijing	East of Taoran Pavilion, Chongwen District	Residential	63%	2,100
			Total	11,700

Review of Operations *(cont'd)*

I. Property development *(cont'd)*

4. *Land reserve (cont'd)*

As at 31st December, 2002, after taking out the 6 projects that were completed for occupation in year 2002, the Group had a total floor area of about 36 million square feet under and for development, an increase of 25% compared to last year and all located in core, developed and mature cities, among which about 10 million square feet are in Beijing, 10 million square feet in Shenzhen, 6 million square feet in Shanghai, 6 million square feet in Guangzhou and 4 million square feet in Chengdu. The sites are all in prime locations and with good prospects.

As at 31st December, 2002, excluding the 7 projects scheduled to be completed in 2003, the Group had 16 other projects which were under or for development. On the basis of the Group's attributable interest, a total floor area of about 26 million square feet was available for development. Details of the respective projects are set out below:

City	Name and/or location of the property project	Intended usage	Percentage of interest	Expected year for completion	Development Area ('000 sq. ft.)	Status
Shenzhen	Sunny Palm, Phase III Nanshan District	Residential	53%	2004	700	Under construction
Shenzhen	Yan Tian Gang Project Yan Tian District	Residential	47%	2004	480	Planning
Shenzhen	Henggang Industrial Land Henggang Central District	Residential	84%	2004-2005	2,700	Planning
Shenzhen	Henggang Yu Ma Chang Henggang Central District	Residential	79%	2005-2006	1,900	Planning
Guangzhou	Elegant Town, Phase III Hai Zhu District	Residential	100%	2004	800	Under construction
Guangzhou	Cannes Garden, Phase II Dong Pu Town	Residential	86%	2004-2005	2,400	Under construction
Guangzhou	Glorious City, C1 Office Block Dongfeng Dong Road Dongshan District	Commercial	40%	2004	120	Planning
Shanghai	Hepin Garden, Phase II Junction of Da Lian Road and Kongjiang Road	Residential	95%	2004	900	Under construction
Shanghai	Zhong Hai Lai Yin Garden Long Wu Road	Residential	99.5%	2004-2005	2,900	Under construction
Shanghai	Zhaoxiang Town, Qing Pu	Residential	100%	2005-2006	900	Planning
Beijing	Zhonghai Shan Shui Tian Yuan Haidian District	Residential	82%	2004	1,600	Under construction
Beijing	Zhonghai Hai Yang Hua Yuan Changping District	Villas	72%	2004-2005	900	Under construction
Beijing	Zhonghai Tian Di, Chongwen District	Residential	63%	2004-2005	2,100	Under construction
Beijing	Zhonghai Golf Garden Chaoyang District	Residential	95%	2005	2,300	Planning
Beijing	Guo Run Building Chaoyang District	Commercial/ Residential	75%	2007	1,200	Planning
Chengdu	Grandeur Vista, Phase II and III Hi-Tech Development Zone	Residential	100%	2004-2005	3,700	Planning
				Total	**25,600**	

The Group has ceased to acquire new land in Hong Kong after 1997.

Review of Operations *(cont'd)*

II. Construction and Contracting Business

In the year, the Group was in confrontation with fierce competition in the construction market in Hong Kong and thus adopted a proactive policy to adjust its development strategy in response to the changes of market conditions. The Group has been dedicated to develop the civil engineering and private construction fields and to explore the viability of trans-regional operation. In 2002, 28 new projects with contract value totalling HK$9.3 billion (including project management of the Group) were secured, which represented a decrease of 16% compared with last year. That was considered as relatively satisfactory under a shrinking and intensified competitive Hong Kong market condition. The Group secured a few Housing Authority projects and was also awarded several large-scale government projects including the Phase II Infrastructure of Disneyland at Penny's Bay, improvement project of Castle Peak Road and Science Park Phase 1C at Pak Shek Kok, and private projects such as Kowloon King's Park residential development. The Group continued to expand the construction market in the PRC and was awarded the improvement project of the public area and office area aviation station building of the Guangzhou Baiyun International Airport.

As at the end of 2002, the Group had 83 projects under construction with an aggregate contract value of HK$30 billion. Among these projects, 42 projects with a contract value of HK$9.9 billion were operated by the Group, e.g. the Ma On Shan residential development project and Cheung Kong's Caribbean Coast; 41 projects were management contracts with an aggregate contract value of HK$20 billion, e.g. the site formation project for Disneyland, and the formation of sites at Choi Wan Road and Jordan Valley. As at 31st December, 2002, the Group had a contract sum of HK$17.6 billion projects under progress. The works of these construction projects on hand were in smooth progression.

III. Infrastructure Investments

In 2001, the Group and its PRC partners reached a consensus on reducing investments on certain infrastructure projects in the PRC. The Group received full repayment of the investment cost of US$61 million during the year.

During the year, the remaining infrastructure projects continued to provide stable return to the Group and contributed a profit of HK$58 million.

IV. Property Investments and Management

During the year, rental property of the Group amounted to an attributable floor area of 2.18 million square feet, among which 0.41 million square feet was in Hong Kong and 1.77 million square feet was in the PRC. Occupancy of China Overseas Building and Horae Place Shopping Mall in Hong Kong were about 95%. Despite downward adjustment of rental rates, rental income increased by 9.7% to HK$73 million due to increase in rental area. Occupancy of the PRC office space such as The China Overseas Building in Shanghai and Dongshan Square in Guangzhou were over 90% with a slight increase in rental rate. Disposal of The China Overseas Building in Shanghai during the year realised a total of HK$420 million in cash. However, total income from renting property in the PRC decreased by 8.5% to HK$121 million compared with the previous financial year.

The Group has property management operations in Hong Kong and major PRC cities such as Shanghai and Guangzhou, covering a floor area of 13 million square feet in Hong Kong and 24 million square feet in the PRC. The property management operation of the Group maintained its outstanding performance in year 2002, contributing a profit of more than HK$30 million.

During the year, the Group reinforced its leading position in the PRC and Hong Kong property management industry by optimising its management team, establishing the information network and strengthening its service innovation.

Review of Operations *(cont'd)*

V. Other Investments

In 2002, the business operations of Hong Kong Concrete Company Limited, Shenzhen Hailong Cement Co. Ltd., Montelli Material Technology Corporation (**"MTL"**) and the other building material companies, in which the Group has invested, ran smoothly and continue to bring income to the Group.

During the year, the Group invested HK$23.6 million to acquire 20% interest in Zhejiang Kingland Pipeline and Technologies Co., Ltd. (**"Kingland"**). Kingland has obtained approval for listing of its H shares in Hong Kong while MTL, in which the Group has 20% equity interest, has entered into the guidance period for A share listing in the PRC. Both companies are waiting for the revival of the capital market and opportunity for listing in due course.

Prospects

While the future development of the world economy is cautiously optimistic and it takes time to improve the structural problems in the various aspects of the Hong Kong economy, the PRC economy continues to stand out. With its accession to the WTO, the PRC economy continues to maintain its rapid growth trend and this will benefit the operation of the Group and provide us with the best opportunities. The Group takes the sustained enhancement of shareholders' value as its core corporate objective. By way of integrating internal and external resources, and strengthening of its management capability, we aim at improving the consolidated strength and competitiveness of various business segments, so as to ultimately achieving over 10% return on the shareholders' fund.

It is expected that the Group's businesses in the next few years shall still be carried out in the PRC and Hong Kong. Property development in the PRC, construction in Hong Kong and industrial investment in the PRC will be our 3 core businesses. The detailed strategies and measures include:

I. The Group has been increasing its investment in the PRC since 1997 and has been gradually moving its assets and businesses northward, achieving satisfactory results. The profit before tax contribution of the PRC property development business has been increasing rapidly and had a growth rate of 70% to HK$342 million in 2002. The Group is of the view that the PRC property development industry is in a period of great renovation, integration and reorganisation. To be able to develop and grow under a regulated environment and to rise amid adjustments should be the keys to success. The Group will continue to concentrate its capital and management capability on strengthening the development of its property business in the PRC and expansion of the profit base of the Group. The Group will capitalise on its competitive advantages in its mode of management, marketing capability and brand image:

(1) the Group is determined to increase the amount and to optimise the structure of its land reserve. It is anticipated that the newly added land reserve for the coming three years will be no less than 10 million square feet every year. In the first quarter of 2003, the Group entered into agreements to develop 4 pieces of land located in Guangzhou, Changchun and Nanjing City;

(2) the Group will continue to improve its design, operation and marketing capability and make good use of its brand name to strive for beating the targeted profit margin, rapid increase in sales volume and annual sales area exceeding 10 million square feet after 2005; and

Prospects *(cont'd)*

(3) the Group will endeavour to watch the cash flow of all projects closely to ensure that the return on funds employed is satisfactory at all time. We will take measures to ensure that the projects under development and stocks from completed projects are sold well and to maintain our good record of keeping minimal stocks at all times.

The Directors would like to remind the shareholders of the Company that China Overseas Property Group Co., Ltd. (**"COP"**), in which the Group holds 79% equity interest, has entered into the guidance period for A share listing in the PRC in August last year. The final timetable and other commercial considerations for COP's listing has yet to be determined, but further announcement will be made to comply with the Listing Rules as and when the application for the separate listing of COP's shares is made. The future development of COP is critical for establishing the leading position of the Group in the development business of residential projects in the PRC.

II. It is anticipated that the scale of Hong Kong construction market will reduce gradually and competition will intensify. The Group will continue to reinforce its leading position in the construction and contracting market in Hong Kong. Through implementation of active and prudent bidding strategies, effective measures on risk and cost control and exploration of new income sources, these will lead to a better profit margin and cash flow. The Group will also continue to expand the construction and contracting market and to improve our market share in the PRC and hence its proportion in the Group's overall contracting businesses. In the first quarter of 2003, a consortium in which a fellow subsidiary of the Group has 45% interest, was awarded the Central Reclamation Phase III project with a contract value of HK$3.8 billion (a project management contract) and we also won the contract for the Hong Kong Movie City. The total value of these contracts amounted to HK$3 billion. The Group will continue to bid for large scale projects such as the Hong Kong SAR Government Headquarters and the Deep Bay Link.

III. The Group has decided to consolidate the businesses of infrastructure investment, industrial investment and logistics as one of its three backbone businesses. In order to increase medium and long term stable profit and to generate other profit sources, the Group will actively seek for new infrastructure projects and construction extended projects in the PRC. In February 2003, the Group invested HK$23.6 million in United Structures Holdings Limited, representing its 33.33% interest. The principal business of this company is the design, production and sale of relevant products of steel frame. In March 2003, the Group invested approximately HK$20 million to increase its equity interest in MTL to 41.8%. Also in March 2003, the Group entered into a cooperative agreement to invest HK$310 million for 55.4% of equity interest in the Nanchang Bridge project.

IV. The Group expects that it will take a longer period of time for the property market of Hong Kong to recover. In the short term, the Group will continue to strive for selling the stocks on hand with a book cost of about HK$0.8 billion within two years and to expedite the development and sales of the Stanley project.

Prospects *(cont'd)*

V. Through active participation in the international capital markets and the capital market in the PRC, the Group will endeavour to improve its capital and gearing structure and to boost its efforts in RMB financing so as to invest with RMB fund for its PRC businesses. At present, the Group is financially sound. As at the end of 2002, the Group had cash of HK$1.9 billion and unutilised banking facilities of HK$2.6 billion and the net gearing ratio was decreased to 8%. Due to sustained rapid expansion of our PRC businesses, the gearing ratio will inevitably on the increase in the forthcoming one or two years. Nevertheless, the Group will adhere to its relatively prudent financial strategy to ensure a sustainable and healthy high growth of the Group.

On behalf of the Board, I would like to take this opportunity to express our gratitude for the support of the shareholders and our business partners and the contribution of our staff.

Sun Wen Jie
Chairman

Hong Kong, 3rd April, 2003

Properties Occupied in 2002

Elegant Town, Guangzhou

Central Park, Hong Kong

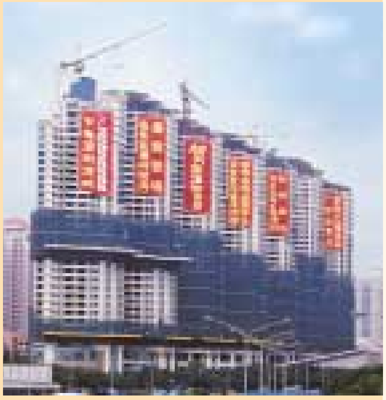
Zhong Hai Xin Yuan, Shanghai

Sunny Palm, Shenzhen

Cannes Garden, Guangzhou

Construction Projects Under Progress in 2002

The Sea View, Shenzhen



Formation of Sites at Choi Wan Road and Jordan Valley

Phase II Infrastructure of Disneyland at Penny's Bay

Improvement Project of Castle Peak Road

Major Construction Projects Completed in 2002

HOS at Po Lam Road Housing Development Phase 3

Horizon Suite Hotel, Ma On Shan

Tseung Kwan O Extension Contract 607 – Tseung Kwan O Station and Tunnels

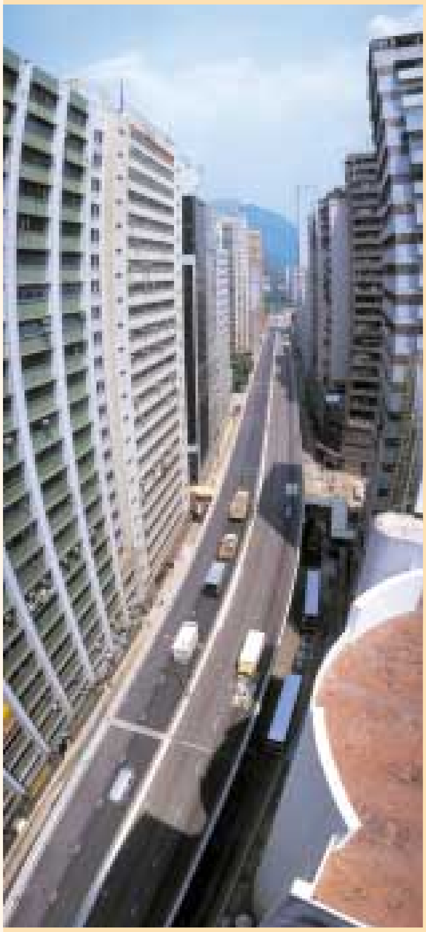
Fanling Primary Health Care Centre

Combined Extensions of Shatin College and Shatin Junior School, Shatin Town Lot 234

Major Construction Projects Completed in 2002 *(cont'd)*

Kowloon Hospital Phase 1 Redevelopment at Mong Kok, Kowloon

Queen Street Site B Development, Sheung Wan



Wong Chuk Hang Road Flyover and Associated Road Widening

Student Hostel Phase 1, NKIL 6284 Cornwall Street, Kowloon