

# Management Discussion and Analysis

## Overall Performance

The overall performance of the Group is considered satisfactory. The turnover was slightly lower by 2.9% to HK\$6.39 billion (2001: HK\$6.58 billion). Due to the making of HK\$480 million provisions on certain property projects invested by the Group in Hong Kong prior to 1997 but were still under development or held for sale, the Group recorded a consolidated profit attributable to shareholders of HK\$60,962,000 for the year (2001: HK\$411,492,000), representing a decrease of 85% compared to the previous year. Taking out the relevant property provisions and non-recurrent exceptional items, the consolidated profit attributable to shareholders increased by 241% to HK\$490 million and operating profits increased by 176% to HK\$590 million. Basic earnings per share was HK1.12 cents (2001: HK7.54 cents) and diluted earnings per share was HK1.11 cents (2001: HK7.45 cents). Due to the payment of dividends in the amount of HK\$218 million, revaluation deficit of investment properties in the amount of HK\$130 million and repurchase of shares in the amount of HK\$45 million, the Group's total shareholders' funds was reduced to HK\$7,706,194,000 (2001: HK\$8,011,170,000), representing a decrease of 3.8%. The net asset value per share was HK\$1.42 as at 31st December, 2002 (2001: HK\$1.47 per share).

## Income

Total operating income of the Group for the year was HK\$6.39 billion, representing a decrease of 2.9% from the previous year, in which:

Property sales was in the amount of HK\$3.11 billion, accounting for 49% of the total turnover and representing a decrease of 13% from the previous year. The sales of mainland property was a record high of HK\$2.8 billion, accounting for 44% of the total turnover. Property sales in Hong Kong reduced substantially by 83.3% and mainly came from stock sales.

Contracting revenue was in the amount of HK\$2.91 billion, accounting for 45.5% of the total turnover and representing an increase of 14.6% from the previous year. This is mainly attributable to the fact that new construction projects increased substantially since 2001 and the effect of which is gradually seen.

Notwithstanding a general increase in rental area, revenue from property rental was in the amount of HK\$193 million, representing a slight decrease of 2.5% from the previous year. This is mainly attributable to the general decrease in rental rate in the Hong Kong commercial property market and the disposal of the China Overseas Building in Shanghai during the year.

Infrastructure investment revenue was in the amount of HK\$59 million, representing a decrease of 42% from the previous year. This is attributable to the early repayment of the Group's investment in several mainland infrastructure projects, leading to a decrease in the infrastructure investment revenue.

Turnover from other operations amounted to HK\$118 million.

## Operating Profit

The operating profit of the Group (being the profit from operations less unallocated finance costs) for the year was HK\$107 million, representing a decrease of 76% from the previous year. However, taking out the relevant property provisions and non-recurrent exceptional items, the adjusted operating profit of the Group in fact increased by 176% to HK\$590 million. This is mainly attributable to profit contribution before tax by the property development business of HK\$430 million, property investment business of HK\$135 million and construction business of HK\$130 million. Also, due to the prevalent low interest rate and better cash management, the finance costs were reduced by HK\$112 million.

# Management Discussion and Analysis *(cont'd)*

## Overall Performance *(cont'd)*

### Administrative Expenses

Despite the making of provision of approximately HK\$16.3 million for staff annual leave allowances in accordance with the new accounting policy, the administrative expenses of the Group were HK\$257 million in 2002, representing a slight decrease of 1.2% from the previous year. This is mainly attributable to effective measures on increasing productivity and also to salary adjustment in line with the general market practice.

### Taxation

The Group's taxation charge for the year increased by 12.6% to HK\$89,352,000 (2001: HK\$79,311,000). This is mainly attributable to the increase in the operating profit generated from the PRC and hence tax thereon, even with a written back of overprovision in previous years amounted to HK\$23.6 million.

## Liquidity, Financial Resources and Gearing

As at 31st December, 2002, the Group's consolidated bank debts was HK\$2,524,494,000 in which HK\$1,139,324,000 will mature in 2003, HK\$47,170,000 is due for repayment in 2004 and HK\$1,338,000,000 is due for repayment after 2004. In May 2002, the Group refinanced the US\$160,000,000 syndicated loan matured on 2nd September, 2002 with a HK\$1.8 billion syndicated loan. As at 31st December, 2002, the Group's bank balances and cash were HK\$1,921,043,000. The Group also had unutilised banking facilities of about HK\$2.6 billion.

The Group has been sticking to a relatively prudent financial policy and watching the cash flow of the Group closely. Despite the continued increase in the scale of the Group's property development business in the PRC, the net current assets of the Group as at 31st December, 2002 increased by 45% to HK\$3.5 billion and the current ratio improved from 1.47 times in 2001 to 1.75 times. The net gearing ratio of the Group was also reduced to 7.8% (2001: 16.6%) (basis: total bank debts net of bank balances and cash, and divided by shareholders' funds).

The Group's bank borrowings as at 31st December, 2002 was HK\$2,524,494,000 of which 35.59% was denominated in Renminbi, 4.82% was denominated in US dollars and 59.59% was denominated in Hong Kong dollars.

The Group's bank balances and cash as at 31st December, 2002 was HK\$1,921,043,000 of which 53.46% was denominated in Renminbi, 25.72% was in US dollars and 20.82% was denominated in Hong Kong dollars.

All of the Group's bank borrowings were made on a floating-rate basis except for the amount of HK\$600 million out of the HK\$1.8 billion syndicated loan. In February 2003 the Group entered into an interest rate swap arrangement to fix the interest rate for the loan amount of HK\$600 million at an all-in rate of about 4.3% starting 23rd April, 2003 all through to its final maturity on 23rd July, 2007.

## Segmental Information

As at 31st December, 2002, contributions to the results by business segments were: a loss of HK\$52,184,000 from property development business (a decrease of HK\$107,187,000 from 2001, mainly attributable to increase in impairment loss of HK\$366,000,000 and notwithstanding the remarkable performance of the PRC business), HK\$129,824,000 from construction business (an increase of HK\$36,686,000 from last year, mainly attributable to increase in business activity and launch of effective cost control measures), HK\$137,977,000 from property investment business (a slight decrease of HK\$3,236,000 from last year despite a 12% increase in rental area, mainly attributable to a general decrease in rental rate in Hong Kong and disposal of the China Overseas Building in Shanghai) and HK\$58,060,000 contribution from infrastructure project investment (decreased by HK\$15,911,000 from last year due to early repayment of certain investment costs).

## Management Discussion and Analysis *(cont'd)*

### Employees

As at 31st December, 2002, the Group had a total number of 4,762 staffs, including 3,017 in Hong Kong and 1,745 in the PRC.

In Hong Kong, confronted with the continuously depressing construction industry, property market and stiff competition environment, the Group has adopted a series of cost cutting measures in response to market changes. But the Group did not carry out staff cutting activities in the form of administrative directions which gained recognition from all the employees and helped maintaining the staff morale at work; in the PRC, with the continuous expansion of the Group's investment activities, the employees have enjoyed an increasing room of development, and the abundant investment opportunities arising from the robust economic growth of the PRC has also contributed to an unprecedentedly high morale of the PRC staff.

Meanwhile, the Group has made an aggressive effort to improve the basic quality of both the Hong Kong and the PRC staff. To achieve optimisation of the working teams, besides the employment of competent persons to fill vacancies, training on staff quality has been strengthened as well. The Group has training bases in Shenzhen and Hong Kong to provide training for new recruits and training on enterprise culture, company systems and code of professional conduct. To unify the staff and boost their sense of identification with the Company, award travels have been made for outstanding employees. The Company has also been active in participating in community activities such as the Community Chest's "Walks for Million".

### Charges on Assets

As at 31st December, 2002, the entire issued shares of Maxjet Company Limited, a non-wholly owned subsidiary of the Group, together with the property erected thereon (Ellery Terrace) were pledged as securities against the banking facilities granted to that subsidiary. The Group's interests in and advances made to an associate, Chest Gain Development Limited (Wong Ma Kok, Stanley), were pledged as securities and subordinated indebtedness against the banking facilities granted to that associate. In addition, the Group provided guarantees for the bank mortgage loans granted to certain purchasers of its properties and pledged certain portion of its bank deposits as security.

### Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group believes that the HK\$/US\$ linked exchange rate will not change and that the exchange rate of Renminbi will remain stable in the short term. As at 31st December, 2002, approximately 4.82% of the Group's loans were denominated in US dollars but all except US\$5,606,000 were repaid in January 2003. Approximately 35.59% of the Group's loans were denominated in Renminbi and which in turn was backed up by sufficient assets denominated in Renminbi. Since the Group believes that in the medium to longer term Hong Kong dollar is a weak currency relative to Renminbi, the Group adopted no other related hedges.

### Contingent Liabilities

As at 31st December, 2002, the Group had contingent liabilities relating to guarantees given and indemnities provided in respect of the credit facilities granted to certain associates amounted to HK\$999,952,000. The Group also had outstanding counter indemnities amounted to HK\$1,344,767,000 for surety bonds issued in respect of construction projects. The Group provided buy back guarantees to banks which granted the mortgage loan facilities to purchasers of the Group's properties in the PRC amounted to HK\$1,574,936,000. The Company and their respective joint development partners were jointly and severally liable for the due and prompt completion of a joint development project undertaken by associates.