

CHAIRMAN'S STATEMENT

OVERVIEW

The Group's profit attributable to shareholders for the year ended 31 December 2002 was HK\$20.8 million compared with HK\$52.3 million in 2001. Turnover for the year increased to HK\$1,465.9 million from HK\$1,441.8 million in 2001, while profit from operations increased from HK\$46.7 million in 2001 to HK\$66.2 million in 2002.

The drop in profit attributable to shareholders from HK\$52.3 million in 2001 to HK\$20.8 million in 2002 was due mainly to a substantial gain which the Group realised in 2001 on the divestiture of a subsidiary and an associate. This impact was partially offset by a smaller loss in our property development projects.

The Group is organised into three divisions: Apparel, which includes garment manufacturing and branded products distribution; Property, which comprises investments in quality residential and industrial developments in Hong Kong and property management; and Strategic Investments.

While it may be a cliché to say that the year under review was a challenging one, this was the reality. We are, nonetheless, heartened by the fact that we have a sound financial position and a steady earnings base in our Apparel Division that acts as a buffer against the uncertain future of the economy, both global and local.

OPERATIONS REVIEW

Despite the prolonged weakness in the global economy, our core garment manufacturing operations performed well during the year 2002. Operating profit from existing facilities was only down by approximately 10% in a very difficult environment.

The Group continued to upgrade its manufacturing processes, improve productivity and increase cost effectiveness while expanding our Mainland China and Cambodia production facilities. These efforts will enhance our competitiveness and increase our market share – ultimately bolstering earnings.

We increased the capacity of our production facility in Cambodia by about 15% to some 300,000 dozens per annum in 2002. Since 2001, the Group has been building up a production base in RuYuan in the northern part of Guangdong province bordering on Hunan province. To-date we have in operation a 100,000 square foot factory and another factory of like size is under construction. More facilities are planned.

Despite a slowdown in tourism post September 11 and a lacklustre local economy, Gieves & Hawkes ("G&H") was able to maintain its sales level. As part of the continuing effort of building brand awareness and growth in volume, G&H opened a new Birmingham store in September 2002 and a wholesale line was launched in January 2003. We believe in the long-term potential of the G&H brand, and we are realistic regarding the time and effort that is needed to unlock this value. In view of the time needed to execute our strategic plan; G&H was privatised in July 2002.

The residential property market in Hong Kong showed signs of stabilisation with increased activities during the first half of the year. The Group launched sales of three key projects, namely, The Waterfront, The Hillgrove, and The Bloomsville during this period and achieved satisfactory results in generating total sales revenue of approximately HK\$1.9 billion. This would have allowed the Group to report profitability on its property development projects if the market had continued to stabilise. However, the market began to slowdown during the second half of the year. At the beginning of the last quarter of the year, the market was at a virtual standstill pending the announcement of the Government's measures to stabilise the property market. After the Government's announcement, market activities did not pick up significantly because of the looming Gulf War and the resulting uncertainty in the global market. Market sentiment further deteriorated in the first quarter of 2003 with the commencement of the Gulf War and the spread of the Severe Acute Respiratory Syndrome (SARS) in Hong Kong. Against these deteriorating market conditions, a provision for impairment in value of our property development projects of about HK\$19 million was made. As a result, for the year 2002, the Group reported a small loss in respect to its property development projects.

SUNDAY Communications Limited ("SUNDAY") implemented various initiatives during 2002 resulting in significantly improved business performance. EBITDA increased by 135% in 2002 to HK\$240 million before restructuring costs. Loss before restructuring costs for the year decreased by 57% to HK\$91 million as compared to 2001 and a positive cash flow of HK\$129 million from operating activities was recorded as compared with a cash outflow of HK\$89 million in 2001. The benefits and cost savings realised from a streamlined operating structure, a segmented approach to the market, the establishment of an operation centre in Shenzhen and a restructuring of its operations will be fully reflected in the 2003 results.

Two former office and warehouse buildings in the United Kingdom and the Netherlands were sold in the second half of 2002 in an effort to divest the Group of non-core assets. We were able to realise a total gain in excess of HK\$20 million from the disposal.

CHAIRMAN'S STATEMENT

STRATEGIC DIRECTION

During these times of economic uncertainty, the Group will continue to strengthen its balance sheet and grow our core businesses while prudently seeking new opportunities.

In an environment of global excess capacity, garment manufacturing will continue to experience margin pressures. The best approach, in our judgement, is to pay close attention to cost control and ways to increase productivity, while maintaining quality, expedited delivery and product innovation. In addition, we will continue to explore opportunities in countries with preferential trading arrangements with the United States and European markets.

The Group will continue to invest in projects to expand and upgrade our manufacturing facilities and improve the productivity and cost effectiveness of our operations to give us a winning edge in a highly competitive market. We will also evaluate and take advantage of technological advances that will increase productivity.

We believe that once the present quota system is abolished, China will become the dominant garment-exporting nation. China's labour force is efficient, production costs are reasonable and operations are unhindered by excessive red tape or counter-productive constraints. The Group will continue to leverage its manufacturing expertise in China, and build up its capacity there in terms of our own facilities or that of our contractual partners. As uncertainties surrounding the quota system remain unresolved, the Group will proceed with all due diligence.

An important focus for the Group will continue to be prime residential property development. During the next two years, the Group will focus on completing the luxurious low-density housing development and the high-end residential apartment project in Sai Kung and Shatin, respectively. In the meantime, we will concentrate on leasing Tower V at The Waterfront and selling the remaining units in The Waterfront, The Bloomsville in Kowloon Tong and The Hillgrove in Siu Lam.

Given the state of the economy, the Group will exercise prudence in continuing to seek quality residential project opportunities that would allow us to capitalise on the market positioning and the WingTai Asia brand we have built in the last five years.

PROSPECTS

The year 2003 is shaping up to be even more difficult than 2002. In addition to a weak economy, Hong Kong was afflicted with SARS and the Gulf War was in its early phase as of this writing. Nevertheless, in the long term, the Group should be able to capitalise on its strengths as and when the world economy as well as the local economy rebound.

The resiliency of our garment manufacturing business during trying times is a healthy indication of its underlying strength. Size, efficiency and flexibility will determine who will be the winner in the garment manufacturing business, especially in the post quota-restrained world. In this regard, the Group is positioned to take advantage of future opportunities.

The development of top quality, innovatively designed property projects will continue to be a focus of the Group. This commitment led to the establishment of WingTai Asia as a well-recognised brand, as demonstrated by the success of The Waterfront and The Hillgrove projects.

We remain cautious as to Hong Kong's property market. We are uncertain as to the benefits of the Government's policy of temporarily suspending the supply of land or how the Gulf War might affect the world economy as a whole; and in particular, how SARS will affect the local economy.

In summary, it is difficult to ascertain when the economy will rebound and we can only surmise that 2003 will be as challenging as the year 2002. The firm foundation we have built, however, will see us through these difficult times and enable us to continue to create value for our shareholders.

BOARD OF DIRECTORS

Mr. Kwok Ping Sheung, Walter and Mr. Kwok Ping Kwong, Thomas resigned as non-executive directors of the Company and Mr. Wong Yick Kam, Michael ceased to be an alternate director to Messrs. Walter Kwok and Thomas Kwok from 26 September 2002. With effect from the same date, the Board appointed Mr. Wong Yick Kam, Michael and Mr. Hong Pak Cheung, William as non-executive directors. The Board wishes to express its appreciation to Messrs. Walter Kwok and Thomas Kwok for their valuable contribution to the Company during their directorships.

VOTE OF THANKS

On behalf of the Board of Directors, I would like to thank our management, staff and consultants for their spirit and efforts that have contributed to the building of a strong foundation for future growth.

CHENG Wai Chee, Christopher

Chairman