

MANAGEMENT

DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The U.S. economy was ailed by both external and internal uncertainties in 2002. The recent battle against Iraq further battered the global economy. Needless to say that the outbreak of the Asia financial turbulence in late 1997 did bring a devastating impact to the local economy. Apart from external factors, persistent recession, high unemployment rate and huge financial deficit also weakened investors' confidence towards the market. As a result, all Hong Kong property companies were badly hit.

Despite these negative factors, the Group remained very focused in its core rental business and ended up performing very well in 2002 with a after tax net profit of HK\$30.6 million, an increase of 50.1% as compared with 2001. The rental derived from the service apartments in Shanghai was particularly pleasing and accounted for 60% of the turnover whereas the rental from the Hong Kong property portfolio still maintained at a very satisfactory level despite a very poor sluggish market sentiment prevailing in Hong Kong.

Hong Kong

The financial turmoil of 1997 has caused many serious economic problems of which we have never encountered in recent years. People have suffered from a contracting economy and a rising unemployment rate. Sharp asset devaluation in real estate and stock market has frightened peoples' confidence to purchase new houses. Furthermore, tight credits have suppressed transaction volume across the board and rents in all types of properties have dropped to an unprecedented level. Faced with all these unfavourable market weaknesses and uncertainties, the Group has adopted a very cautious investment strategy to enable the Group to maintain its edge in the market.

Following the Group's cautious investment strategy, the Group had not acquired any properties during the past few years. The Group was therefore not outrageously affected as its property portfolio, mostly acquired in the early 90's, has provided a strong cushion even though Hong Kong properties have undergone a period of extensive consolidation with a sharp adjustment in value.

Rents were in general dropped by a range of 10% to 30% when compared to previous year. However, the Group was able to keep its overall occupancy rate to close to 85% and has always strived to maintain a steady income stream from its investment properties in Hong Kong as most of its properties have already built up a solid tenant base. However, in view of the current situation, it is anticipated that the local property market will remain weak at least for the remaining part of 2003 and confidence will only be rebuilt in 2 to 3 years' time.

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

China GDP grew by around 8% in 2002, compared with the dismal growth in the other major economies. Furthermore, with China's entry into the World Trade Organization and its successful bid to host the 2008 Olympics and World Expo 2010, foreign direct investment is expected to increase, and this is expected to have a multiplier effect on the China economy.

Nobody will disagree that Shanghai is the fastest growing financial and commercial centre in China with a double digit GDP growth. Recognizing its market potential, the Group, operating under the name of "Windsor Renaissance", seized the opportunity to enter into the Shanghai property market back in 1994. Our trademark, "Windsor Renaissance", which is a symbol of high quality service apartment, has been very well accepted by the expatriate community in Shanghai and at present, our tenant base covers hundreds of multinational corporations from all over the world.

For 2002, our chain of service apartments in Shanghai performed very well with occupancy rate consistently maintained at close to 90%. At present, a portfolio of over 450 service apartments and houses are under our management.

Our latest addition, Windsor Place, comprises 126 detached houses and townhouses of first class hotel quality, was completed and released to the market for rental at the end of the year. The responses from new tenants have been very encouraging so far and it is envisaged that recurring annual rental of close to HK\$65 million would be generated from this project alone. However, as the project was only completed by the end of 2002, the full financial impact of this project will only be reflected in the year 2003.

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 2002, the Group had outstanding bank loans amounting to HK\$804 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 2002, out of the total outstanding bank borrowings of approximately HK\$804 million (out of which HK\$700 million were denominated in Hong Kong dollars and the remaining balance in Renminbi), HK\$123 million are repayable within one year, HK\$336 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 2002 amounted to approximately HK\$175 million. The Group's gearing ratio as at 31 December 2002 was approximately 41% based on the total bank borrowings of approximately HK\$804 million and the aggregate of the shareholders' funds, minority interests and total bank borrowings of approximately HK\$1,979 million.

PERSONNEL

As at 31 December 2002, the Group had a total of 400 employees, of whom 370 were based in the PRC 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

No one knows how long the economic downturn will last, we therefore should prepare ourselves very well to cope with the future fluctuation. 2003 will still be a tough year for many property companies due to many unforeseen circumstances in the market. It is almost certain that sentiment in the Hong Kong property market will remain extremely weak in the first half of 2003 and the Board remains cautious about the outlook for the balance of 2003 as the nine-point stimulus measures recently announced by the government for the local property market has failed to re-engine the current vulnerable property market in Hong Kong. The Board does trust 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, as a result of the slackening economic growth in the U.S. and the continuous downturn of the local economy, interest rate will likely remain at a relatively low level. This will be beneficial to the Group's continuing effort to lower interest cost. We still remain very positive about the long term prospect of Hong Kong and will start to search for appropriate investment opportunities when the timing is right.

As regards our investment in Shanghai, we are very optimistic about our service apartment chain operation. Shanghai, as the financial and commercial hub of China, is bound to be the fastest growing city in China in the forthcoming years. As we have already established a firm footing and a strategic presence in Shanghai, we are very confident that we are extremely well positioned to deliver solid performance in this sector of business in the future. With the continuing opening up policy adopted by the Chinese Central Government, we strongly believe that the property market in Shanghai would flourish in the long run even though there may be some immediate control measures likely to be introduced by the government to cool down the prevailing property market sentiment. At present, we are progressively but cautiously searching for appropriate land bank and investment opportunities to cater for future growth in Shanghai. We strongly believe that the Group is heading the right direction and is extremely well placed to capitalize on this exciting opportunity.

REVIEW BY AUDIT COMMITTEE

The Group's Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with the management, the auditing, internal control and financial reporting matters including the review of the Group's audited results for the year ended 31 December 2002.