# Chairman's Statement

## Overview

In 2003, the Group continued to take strategic moves in rationalizing its investment property portfolio mainly in Australia and New Zealand, streamlining corporate structure and seeking new investments; in order to position the Group to stay competitive to new challenges and to take advantage of opportunities in varying market conditions in different locations where the Group has expertise.

Non core properties or properties with not much growth potential were disposed in the year, resulting in the Group retaining cash and bank deposits amounting to HK$1.81 billion at year end date available for future investment.

## Results

The Group's audited consolidated profits attributed to the shareholders for the financial year ended 31st December, 2003 was HK$187.3 million compared to a loss of HK$202.6 million for the previous year. As properties were disposed at or above book cost, and no provision for impairment on securities was made, the Group therefore reported a net profit on investments and properties for HK$98.8 million in 2003 against a loss of HK$438.3 million in the previous year. Following the sale of non core properties and 345/363 St. George Street, Sydney, coupled with a decrease in rental income per square feet for Hong Kong properties, a drop of 28.1% in gross rental income was recorded, but a corresponding increase in interest income from HK$23.4 million in year 2002 to HK$54.4 million in year 2003 due to an increase in cash reserves was also reported.

## Dividend

The board of directors recommends a final dividend of HK6 cents per share for the year 2003 payable on 18th May, 2004 to shareholders whose names appear on the Register of Members on 12th May, 2004. Together with the interim dividend of HK4 cents per share paid on 6th October, 2003, the total dividend for the year is HK10 cents per share. No dividend was paid for the preceding year.

## Business Review

**Property Investments and Developments**

***Hong Kong***

The SARS incidence had greatly impacted the property market in the 1st half of 2003, followed by a gradual and speedy recovery towards the end of the year due to the introduction of CEPA and Individual Visits Scheme to Hong Kong. Rental income for the financial year decreased by 11.5% as a result of reduced average rent for new and renewal leases. This reduction in rent will be fully reflected in the year 2004 where over 70% of its tenancy expired towards the end of 2003. Average occupancy rate was maintained at over 90% level throughout the year. As market sentiment began to improve by year-end, we expect the rental level will stabilize. This should in turn benefit our rental return.

In view of the recent rebound in property market, the Group is actively considering and evaluating development potentials including hotels development for the site at Leighton Road.

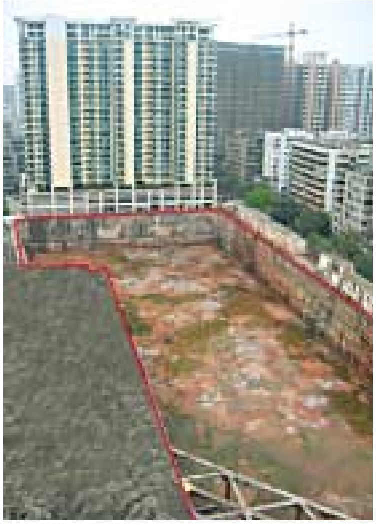
Construction of the Group's 55% owned Sheung Shui site is progressing on schedule. Completion of the first phase development is expected to complete by end of 2004. Negotiation with the Government on further modification of lease including amongst others, from a plot ratio of 3.3 times to 5.0 times was finalized. Premium will be paid shortly. Subsequent to this modification, it is planned to construct one more residential tower.

**Fanling Sheung Shui Town Lot No. 189**
55% owned by the Group, the construction work of this site is underway for three 40-storey residential towers. Total gross floor area of the development will achieve approximately 45,120 sq.m. with 139 carparking spaces.

# Chairman's Statement

***China***

The Shanghai warehouse contributed a steady rental income to the Group. The lease is due to expire in mid-2004 and the Group is in active discussion with various interested parties for new tenancy.



**Phase II, Westmin Plaza, Guangzhou**
Adjoining to phase I, phase II Westmin Plaza will comprise of four towers of residential blocks and one office block. Foundation work was completed and construction of superstructure will commerce soon.

Westmin Plaza Phase I in Guangzhou was completed and sold with success. Majority of the sales proceeds were booked in year 2002 with the remaining proceeds booked in year 2003. Phase II development comprises of 4 towers of residential blocks and 1 office block on top of the commercial podium. Foundation work was recently completed and construction of the superstructure will commence soon. Completion of the whole development is expected to be in late 2005.

The Group has reactivated the development of Overseas Exchange Square in Chengdu in December 2003. The project is about 90,000 sq.m., comprising of 2 office towers on top of the commercial podium. It is planned that the whole development will be completed by late 2005.

The construction work of New Century Plaza was completed in December 2003. Certain floors were sold recording a profit of HK$4 million for the financial year under review.

***New Zealand***

Trans Tasman Properties Limited ("TTP"), in which the Group owns 59.97% at balance sheet date, announced its combined results attributable to its shareholders for the financial year under review, after taking into account its share in Australian Growth Properties Limited ("AGP"), a surplus of NZ$40.6 million (HK$185.5 million), compared to NZ$0.16 million (HK$0.6 million) for the previous corresponding year. Net asset value per share as at 31st December, 2003 was NZ$0.63 (HK$3.2) compared to NZ$0.55 (HK$2.3) for previous year.

After restructuring the property portfolio, TTP has adopted following business strategies:

- To sell investment properties where it believes added value cannot be achieved;
- To re-invest in the Australasian property investment and development markets as counter-cyclical and opportunistic investments arise;
- To invest further in what is broadly defined as real estate capital market opportunities including property mortgage financing; and
- To invest in Asian/Pacific property markets where counter-cyclical property investment or development opportunities exist.


**Airpark Business Centre, Auckland**
Following the success of the Airpark development, the Group contracted to purchase the adjoining 52-hectare site. Sales campaign for first stage commenced in mid December 2003 with strong buyer interest.

During the period, New Zealand had disposed one rental property and carpark complex. New Zealand investment portfolio now comprises of 13 commercial properties in Auckland and 1 in Wellington. Leasing activity in New Zealand is stable. Overall vacancy rate run at comparable levels to last year at 5.7%.

TTP completed the development of the Airpark Business Centre and successfully sold all sites apart from two that it has retained. As at balance sheet date, 22 of the 27 sites sold had settled and have contributed earnings of NZ$6.1 million (HK$27.8 million). The other 5 sites will settle in the first few months of 2004. TTP further contracted to purchase the adjoining 52 hectare-site to complement the Airpark Business Centre. The first stage of the development was released to the market in mid-December with strong buyer interest for the sites.

With improving cash reserves, TTP has on 29th December, 2003 repaid 66% of its Secured Bonds, thus further reducing its interest cost on these Bonds.

As announced in January 2004, the Group entered into a joint venture for the development of a resort area known as Jacks Point in Queenstown in which the Group owns 60%. Jacks Point was originally a rural land of 409 hectares. After two years of hard work, it was successfully rezoned as resort area. No premium is required for rezoning. The acquisition cost amounted to NZ$9.0 million (HK$45.1 million). The area will be developed into a resort with a golf course, hotel and residential properties.

***Australia***

The CBD office sector has seen increased levels of incentives and softening rental levels, which impact on the capital value of the investment properties. Following the sale of 363 George Street and 345 George Street Sydney in July 2003, an unconditional contract was entered in December 2003 for the sale of a property in Melbourne, leaving only one property in Sydney, which was being refurbished and is now being marketed for lease.

**Garment Trading**

The garment business continued to generate similar return to the Group's net profit. However, with the facing out of quota system in 2005, and the tough market environment, a substantial drop of HK$23 million from contribution from garment business will occur in 2005.

**Supply Chain Management**

E-commerce Logistics Limited ("ecL"), an associate of the Group has established gradual growth through expansion in Taiwan and China. The ecL Warehouse Management System was awarded at "Asia Pacific ICT Awards 2003" in the category "Best Industrial Applications". Through its technology-driven and customer-centric approach, ecL provides the highest value proposition to clients through better managing the inventory, reducing logistics costs, and improving operation efficiencies together with highly transparent information flow.

Performance of Professional Services Brokers Limited has exceeded its budget. A positive contribution was made to the Group.

## Material Acquisition and disposal of subsidiaries

**General offer by TTP for the shares in AGP not owned by TTP**

An offer by TTP for the 49.46% shares not owned by it in AGP was made. The offer price was A$0.85 (HK$4.36) as compared to net asset value per share of A$1.02 (HK$5.23). The offer was concluded in January 2004, resulting in a net gain of HK$44.3 million realized in the current year and HK$79.7 million to be realized in the future years.

**Increase in shareholdings in TTP by the Group**

The Group has increased its interest in TTP from 55.16% to 59.97% during the year. The average purchase price was NZ$0.35 (HK$1.60) and when compared to the then net asset value per share, resulted in a negative goodwill of HK$32.6 million to be amortized in the future years.

There were no other material acquisitions or disposals of subsidiaries during the year.

## Financial Review

Key 2003 financial data, policies and capital events relating to the Group and its major subsidiaries were as follows:

**Financial Resources and Liquidity**

As 31st December, 2003, the Group had HK$1,881 million cash and unutilized facilities of HK$963.7 million to meet its commitments and to provide working capital. The current (working capital) ratio improved from 2.20 at 31st December, 2002 to 4.46 at 31st December, 2003 due mainly to repayment of loans and additional cash derived from disposition of properties in New Zealand and Australia.

Bank borrowings and bonds of TTP and its Australia subsidiary AGP are denominated in NZ$ and A$ respectively. At 31st December, 2003, the TTP group had drawn down bank loans and outstanding bonds equivalent to NZ$317.2 million (HK$1,608.3 million) secured mainly by properties valued at an equivalent of NZ$318.8 million (HK$1,616.3 million).

For the Group companies operating in Hong Kong and China, borrowings amounting to HK$1,149.0 million had been drawn down at 31st December, 2003, secured by properties valued at HK$2,462.7 million and pledged fixed deposits of HK$27.4 million.

**Refinancing and Gearing**

Major credit facilities have been renewed on a medium and long term basis that provided the Group with capacity and flexibility to undertake development and investment opportunities consistent with its strategy to remain a long-term investor in property.

The Group's overall gearing, or net interest bearing debt minus cash, as a percentage of total property assets improved to 21% at the end of 2003 from 34% at the end of 2002.

**Treasury policies**

The Group adheres to prudent treasury policies. Its borrowings are principally on a floating rate basis but in certain circumstances, either pursuant to banking covenants or at time when interest rates are volatile, hedging instruments including swaps and forwards are used to manage floating rate risk.

**Capital movements**

During the year, the Company did not issue any additional shares or any type of capital instruments.

**Loan maturity profile**

As at 31st December, 2003, maturities of the Group's outstanding borrowings were as follows:

| | *HK$ m* |
|---|---|
| Due within 1 year | 205.5 |
| 1-2 years | 1,512.3 |
| 3-5 years | 1,020.8 |
| Over 5 years | 139.4 |
| | 2,878.0 |

At the end of 2003, the Group's long-term borrowings due after one year amounted to 80% (2002: 80%) of total liabilities.

## Outlook

There is recent indication that the economy in Hong Kong is in recovery, at a faster pace than expected. Accompanied by a reduced deflation and with positive market sentiment, the property market in particular the luxury residential properties have shown substantial improvement in the past few months. With a strong financial background, the Group is well positioned itself for new investment.

The Group has seen growth in China property market. The Group will take the opportunity to develop the properties for sale. At the same time, it will seek new opportunities for investment.

The Australian and New Zealand property markets are approaching peaks in their property cycles. As a result, current opportunities in these markets are limited. The Group will continue to sell down non-core properties, develop Airpark II, and continue in building stronger cash reserves for investments with higher risk and higher returns.

Positioned within the Asian Pacific region, the Group will maximize its connectivity capability and expertise to invest in geographical areas where cyclical low in property markets exist.

## Management and Staff

The Group had 170 employees at the end of 2003 compared with 200 at the end of 2002. Salary and benefits are reviewed at least annually both in response to market conditions and trends and in conjunction with individual performance appraisals. Fringe benefits including study and training allowances, and voluntary employer contributions to retirement schemes are offered to most employees. The Company operates an employee share option scheme with options granted to the Group employees on a discretionary basis by the Board.

The board wishes to thank to the management and staff for their commitment, contribution and dedication and to the customers and tenants for their continuous support to the Group.

**Lu Wing Chi**
*Chairman and Managing Director*

Hong Kong, 25th March, 2004