

Management Discussion and Analysis

Overall Performance

The Board considered the overall performance of the Group for year 2003 satisfactory. Turnover increased by 19% to HK\$7.62 billion (2002: HK\$6.39 billion). Mainly 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's consolidated profit attributable to shareholders for year 2002 was substantially reduced to HK\$41,742,000*. Mainly due to the good performance of our PRC property development and also provisions write-back for Hong Kong property projects, the consolidated profit attributable to shareholders increased 15.5 times to HK\$689 million. Even taking out the relevant property provisions or provisions write-back and non-recurrent exceptional items, the consolidated profit attributable to shareholders and operating profits of the Group still have satisfactory growth. Basic earnings per share was HK12.74 cents (2002: HK0.77* cents) and diluted earnings per share was HK12.61 cents (2002: HK0.76* cents). Mainly due to the increase in shareholder's attributable profit plus the receipt of HK\$32,684,000 from the exercise of share options, even after the payment of dividends in the amount of HK\$162 million and repurchase of shares in the amount of HK\$15,094,000, the Group's total shareholders' funds was increased to HK\$8.09 billion (2002: HK\$7.56* billion), representing an increase of 6.95%. The net asset value per share was HK\$1.49 as at 31 December 2003 (2002: HK\$1.40* per share).

Income

Total operating income of the Group for the year was HK\$7.62 billion, representing an increase of 19% from the previous year, in which:

Property sales was in the amount of HK\$3.50 billion, accounting for 46% of the total turnover and representing an increase of 12% from the previous year. The sales of mainland property was a record high of HK\$3.22 billion, accounting for 42% of the total turnover. Property sales in Hong Kong was HK\$280 million and mainly came from the Ellery Terrace project.

Contracting revenue was in the amount of HK\$3.75 billion, accounting for 49% of the total turnover and representing an increase of 28% from the previous year. This is mainly attributable to the fact that new construction contracts increased substantially since 2001 and the effect of which is gradually seen.

Owing to a general drop of rental rate in Hong Kong, revenue from property rental was in the amount of HK\$168.00 million, representing a decrease of 13% from the previous year.

Infrastructure investment revenue was in the amount of HK\$50 million, representing a decrease of 15% from the previous year. This is attributable to the further early repayment of the Group's investment in Guangxi infrastructure projects, leading to a decrease in the infrastructure investment revenue.

Turnover from other operations amounted to HK\$138 million.

Overall Performance *(cont'd)*

Operating Profit

The operating profit of the Group (being the profit from operations less unallocated finance costs) for the year was HK\$914 million, representing an increase of 754% from the previous year. This is mainly attributable to profit contribution before tax by the PRC property development business of HK\$509 million, Hong Kong provisions write-back (net) of HK\$221 million, property investment business of HK\$132 million and construction business of HK\$162 million.

Administrative Expenses

The administrative expenses of the Group were HK\$268 million in 2003, representing a slight increase of 4.3% from the previous year. This is mainly attributable to increase in scale of construction businesses.

Taxation

The Group's taxation charge for the year increased by 9.8% to HK\$119 million (2002: HK\$109 million). This is mainly attributable to the increase in the operating profit generated from the PRC and hence tax thereon.

Liquidity, Financial Resources and Gearing

As at 31 December 2003, the Group's consolidated bank debts was HK\$2.61 billion of which HK\$686 million will mature in 2004, HK\$311 million is due for repayment in 2005 and HK\$1.61 billion is due for repayment after 2005. As at 31 December 2003, the Group's bank balances and cash were HK\$2.38 billion. The Group also had unutilised banking facilities of about HK\$3.78 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 31 December 2003 increased by 28.9% to HK\$4.56 billion and the current ratio improved from 1.75 times in 2002 to 1.81 times. The net gearing ratio of the Group was also reduced to 3% (2002: 8*%) (basis: total bank debts net of bank balances and cash, and divided by shareholders' funds).

The Group's bank borrowings as at 31 December 2003 was HK\$2.61 billion of which 38.25% was denominated in Renminbi and 61.75% was denominated in Hong Kong dollars.

The Group's bank balances and cash as at 31 December 2003 was HK\$2.38 billion of which 44.79% was denominated in Renminbi, 17.48% was in US dollars and 37.73% 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\$900 million out of the HK\$1.80 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 4.30% starting 23 April 2003 all through to its final maturity on 23 July 2007. In July 2003, another interest swap arrangement was made (commencing on 23 October 2003 and expiring on 23 July 2007), pursuant to which the interest rate of a HK\$300 million loan was fixed at about 4.00%. The Group has no other derivative exposure for hedging or speculative purpose.

Segmental Information

As at 31 December 2003, contributions to the results by business segments were: a profit of HK\$735 million from property development business (an increase of HK\$787 million from 2002, mainly attributable to impairment loss of HK\$480 million in 2002 but reversal of impairment losses (net) of HK\$221 million in 2003 in respect of Hong Kong property projects and to the remarkable performance of the PRC business), HK\$162 million from construction business (an increase of HK\$32,220,000 from last year, mainly attributable to increase in business activity and launch of effective cost control measures), HK\$132 million from property investment business (a slight decrease of HK\$5,561,000 from last year, mainly attributable to a general decrease in rental rate in Hong Kong and disposal of the China Overseas Building in Shanghai) and HK\$48,531,000 contribution from infrastructure project investment (decreased by HK\$9,529,000 from last year mainly due to early repayment of certain investment costs).

Employees

As at 31 December 2003, the Group had a total number of 8,476 staffs, including 3,476 in Hong Kong and 5,000 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 and quality enhancement measures to improve its competitiveness. Salary is a major portion of the operation costs. During year 2003, our policy is to control salary payout. At the same time, through implementation of various effective incentive schemes, the bonuses to employees are closely linked to their performance and the division's performance.

The Group recognizes human resource is the most valuable asset to the Group. The competitiveness of the Group can be enhanced through improvement of the quality and capability of employee plus building up of human resources reserve.

The Group provides diversified internal training programmes to our employees. The tutors are seniors from internal or experts from external. Employees are encouraged and subsidized to attend outside courses and some brilliant employees are sent overseas to further their studies on technical as well as academic knowledge.

Charges on Assets

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 a very small portion of our 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. Approximately 38.25% 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 31 December 2003, 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\$1,002,355,000. The Group also had outstanding counter indemnities amounted to HK\$1,168,850,000 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\$2,405,420,000. 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.

* adjusted in compliance with SSAP 12 (Revised)