BUSINESS REVIEW

The Hong Kong property market, after a period of extensive consolidation with a sharp adjustment in value and a dramatic drop in the number of transactions, had finally seen light in the tunnel towards the end of the year 2003. The weakening of the US dollars coupled with the helping hands of the Chinese Central Government encouraging investment and tourism in Hong Kong, have served as a catalyst to revitalize the Hong Kong economy. Even though we are not sure the Hong Kong economy will be blooming again very soon, at least we are certain that the Hong Kong economy had bottomed in the year 2003 and the future of Hong Kong is more rosy than a year ago.

Surviving and struggling in this volatile and vulnerable era, the Group had nevertheless remained very focused in its core rental business and ended up performing very well in the year 2003 with an after tax net profit of HK$54.7 million, an increase of 78.6% as compared with 2002. The rental derived from the service apartments in Shanghai was particularly pleasing 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 in the first half of 2003.

Shanghai

China as a whole is a fast blooming economy with sustained growth over the past few years. At least for the next 10 years, with China entry into the World Trade Organization and its successful bid to host the 2008 Olympics and World Expo 2010, this rapid growth pace will likely continue. Internal consumption and spending are very strong and foreign direct investment has accelerated the China development. With its opening up policy and the gradual integration of the international laws and practices, the country risk of investment in China is diminishing.

Shanghai as the fastest growing financial and commercial centre in China again recorded a double digit GDP growth of 11.8% in 2003. The Group Shanghai service apartment chain, operating under the name of "Windsor Renaissance", has already built up a market niche in Shanghai and has continued to contribute a strong return on investment for the last 8 years with occupancy rate consistently maintained at close to 90%. Our trademark, "Windsor Renaissance", which is a symbol of high quality service apartment, has been very well received and accepted by the expatriate community in Shanghai and at present , our tenant base covers hundreds of multinational corporations from all over the world. At present, a portfolio of around 500 service apartments and houses are under our management.

This year, what was particularly noteworthy was the completion of a brand new prime residential development in Shanghai known as "Windsor Place", a project comprising 126 detached houses and townhouses of first class hotel quality. The responses from new tenants have been very encouraging so far and all the houses are filled as soon as they are released to the market. At the date of writing this report, the occupancy rate for this new project is 100%. It is envisaged that a recurring annual rental of close to HK$65 million would be generated from this project alone.

Hong Kong

Nobody would disagree the first half of 2003 was very difficult for Hong Kong at large with unpromising economic outlook, severe business contraction, persistent deflationary pressure, and high unemployment rate. Besides, the outbreak of SARS in the first half of the year further aggravated the situation and brought Hong Kong into doldrums with investors' confidence hitting an unprecedented low level. Needless to say, all Hong Kong property companies were badly hit in the first half of 2003. However, towards the end of 2003, the property market in Hong Kong suddenly started to turnaround. With the help of the Chinese Central Government announcing the implementation of "CEPA" and the release of new travel policy, the prevailing economic outlook in Hong Kong has recently shown very strong signs of recovery. Despite a poor sentiment in the Hong Kong property market in the first half of 2003, the Group could still maintain an overall occupancy rate of close to 85% for its Hong Kong portfolio for the year under review.

As explained in the 2002 annual report, we have always adopted a positive attitude and are of strong belief that under the leadership of Mr. C.H. Tung, the Hong Kong Government would be able to revitalize the ailing property market in Hong Kong. Following this belief, we acquired an industrial building in Wong Chuk Hang, Aberdeen for long term investment purposes in the second half of 2003. We strongly believe that the recent recovery is tangible and sustainable and have every confidence in the Hong Kong economy in the long term. It is our intention to look for investment properties in Hong Kong when suitable opportunities arise.

ACQUISITION OF ORIENTAL EXPLORER HOLDINGS LIMITED ("Oriental Explorer")

On 16 May 2003, the Group made a voluntary conditional cash offer to acquire all the issued shares of Oriental Explorer at a price of HK$0.045 per share. Prior to the general offer, the Group had a beneficial interest in 535,600,000 shares in Oriental Explorer, representing 29.76% of its issued share capital.

The acquisition represents an opportunity for the Group to widen its business scope and to participate in the international steel trading business. Diversification into this line of business is in the interests of the Group and the shareholders as a whole as the international steel market has recovered with a significant increase in demand from the Asian market especially China.

The general offer became unconditional on 27 June 2003 and at the closing of the offer, 482,554,999 shares were received, representing 26.80% of the issued share capital of Oriental Explorer. As a result, Oriental Explorer became a subsidiary of the Group and its operating results and underlying assets/liabilities were consolidated into the Group as from 27 June 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 2003, the Group had outstanding bank loans amounting to HK$682 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 2003, out of the total outstanding bank borrowings of HK$682 million (out of which HK$642 million were denominated in Hong Kong dollars and the remaining balance in Renminbi), HK$94 million are repayable within one year, HK$291 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 2003 amounted to approximately HK$139 million. The Group's gearing ratio as at 31 December 2003 was approximately 34.7% based on the total bank borrowings of approximately HK$682 million and the aggregate of the shareholders' funds, minority interests and total bank borrowings of approximately HK$1,964 million.

PERSONNEL

As at 31 December 2003, after the takeover of Oriental Explorer, the Group had a total of 600 employees, of whom 550 were based in the PRC and 50 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

Even though Hong Kong has recently seen light in the tunnel, we should still prepare ourselves very well to cope with the future fluctuation should such event arise. The Board does trust that the recent revitalization of the Hong Kong property market is real and sustainable as 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. We are very positive about the long term prospect of Hong Kong and is searching for appropriate investment opportunities which can enhance our shareholders' value.

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 are some immediate control measures 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.

The achievements of the past several years, which brought the Group to its current strong position, allow us to look forward with confidence to the future. The Board and management of the Group are dedicated to rewarding the shareholders who have supported the Group by their investment and have decided to continue to upkeep the dividend policy by proposing a final dividend of 0.3 HK cents per share.

REVIEW BY AUDIT COMMITTEE

The Group's Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including the review of the Group's audited results for the year ended 31 December 2003.