

# Management Discussion and Analysis

## Financial Review

For the year ended 31st December 2003, the Group recorded a turnover of HK\$939,680,000 (2002: HK\$583,508,000), representing a substantial increase of 61% as compared to the prior year. The significant increase was mainly due to the increase in turnover of building construction, sales of properties and commission income of ship trading by HK\$289,513,000, HK\$38,737,000 and HK\$26,399,000 respectively.

The Group incurred an operating loss of HK\$73,886,000 for the year (2002: HK\$507,837,000) and the loss attributable to shareholders decreased to HK\$116,706,000 (2002: HK\$538,056,000). The loss was mainly due to provisions of HK\$136,414,000 (2002: HK\$539,043,000) made in 2003 comprising the revaluation deficit of investment properties of HK\$70,966,000 (2002: HK\$45,900,000); provision for completed properties held for sale in Hong Kong of HK\$11,271,000 (2002: HK\$43,966,000); provision for diminution in value of investment security of HK\$8,893,000 (2002: HK\$13,650,000); provision for claims with related legal costs and foreseeable losses on construction contracts of HK\$42,429,000 (2002: HK\$87,729,000); impairment loss on fixed assets of HK\$2,855,000 (2002: impairment loss on leasehold land and building of HK\$207,000,000 and provision for impairment loss on other investment in a joint venture of HK\$140,798,000).

Excluding the above provisions, the Group achieved an operating profit of HK\$62,528,000 (2002: HK\$31,206,000). The increase in operating profit by two-folds as compared to the previous year was mainly the result of the profit contribution from the ship trading business.

### **Financial Resources and Liquidity**

As at 31st December 2003, shareholders' funds of the Group decreased by 12% to HK\$887,072,000 as a result of the loss attributable to shareholders of HK\$116,706,000 recorded for the year. For the year ended 31st December 2003, the Group had a net repayment of bank loans in the amount of HK\$171,161,000 (2002: HK\$361,076,000). As at 31st December 2003, total banking facilities available to the Group amounted to HK\$1,296,897,000 (2002: HK\$1,507,615,000) of which HK\$935,120,000 (2002: HK\$1,106,281,000) were utilised. The reduction in utilisation of banking facilities was primarily attributable to the repayment of bank loans by applying proceeds from the sale of properties under Shanghai Fragrant Garden and the leasing of investment properties and other properties in Hong Kong. The gearing ratio, which represents total bank loans over total assets, was approximately 40% (2002: 44%). The gearing ratio decreased despite the aforesaid provisions of HK\$136,414,000 made on certain assets due to the reduction in utilisation of banking facilities.

As at 31st December 2003, the Group's borrowings were denominated in Hong Kong dollar and Renminbi and carry interests at rates calculated with reference to Hong Kong Interbank Offered Rate and the Base Rates announced by the People's Bank of China. The Group did not have any financial instruments used for hedging purpose.

The maturity and currency profiles of the outstanding bank loans as at 31st December 2003 are analysed as follows:

	2003		2002	
	HK\$'000		HK\$'000	
Maturity profiles:				
Bank loans repayable				
— Within one year	257,220	28%	155,000	14%
— In the second year	19,230	2%	171,281	15%
— In the third to fifth year	658,670	70%	780,000	71%
	<b>935,120</b>	<b>100%</b>	1,106,281	100%
Secured	697,130	75%	853,281	77%
Unsecured	237,990	25%	253,000	23%
	<b>935,120</b>	<b>100%</b>	1,106,281	100%
Currency profiles:				
Hong Kong Dollar	916,330	98%	1,033,000	93%
Renminbi	18,790	2%	73,281	7%
	<b>935,120</b>	<b>100%</b>	1,106,281	100%

As at 31st December 2003, investment properties in Hong Kong of HK\$242,034,000 (2002: HK\$313,000,000) and other properties in Hong Kong of HK\$722,549,000 (2002: HK\$738,806,000) were pledged as securities to a bank in respect of certain banking facilities granted to the Group.

Cash and bank balances amounted to HK\$554,930,000 (2002: HK\$486,117,000) as at 31st December 2003 and accounted for 56% (2002: 53%) of the current assets of the Group. Bank balances of HK\$4,392,000 (2002: HK\$54,129,000) has been restricted by a bank for the purpose of granting banking facilities to the Group.

During the year, the Group had no material exposure to exchange rate fluctuations. With its strong cash position and the available banking facilities, the Group has adequate resources for its ongoing operations and future development.

### **Major Customers and Suppliers**

For the year ended 31st December 2003, the Group's five largest customers accounted for 68% of the Group's turnover and the largest customer included therein accounted for 54%. During the year, the aggregate amount of purchases from the five largest suppliers accounted for less than 30% of the total cost of sales of the Group.

None of the Company's directors, their associates, or any shareholders of the Company (which to the knowledge of the Company's directors owned more than 5% of the Company's issued shares) had a beneficial interest in any of the Group's five largest suppliers and customers.

### **Employees**

As at 31st December 2003, excluding associated companies and jointly controlled entities, the Group had approximately 269 (2002: 292) employees of whom approximately 134 (2002: 158) employees were in Hong Kong. The number of employees in Hong Kong decreased upon the completion of the certain construction contracts. For the year ended 31st December 2003, employees costs including directors' emoluments and pension costs totaled HK\$57,772,000 (2002: HK\$57,942,000). During the year, all Hong Kong employees participated in the Mandatory Provident Fund scheme.