

Chairman's Statement



Dai Xiaoming

Chairman & Chief Executive

RESULTS

4 The Group recorded a turnover of HK\$67,096,000 for the year ended 31st December, 2002, which represented a decrease of approximately HK\$186,561,000 or 74% as compared with last year. It is mainly due to the decrease in sales of properties in the People's Republic of China (the "PRC") from last year of HK\$179,089,000 to this year of HK\$2,454,000, a decrease of HK\$176,635,000.

The Group's profit attributable to shareholders in this year was HK\$1,019,000, as compared to HK\$6,681,000 in last year. The decrease in profit is mainly due to the decreases in rental income in Hong Kong and sales of properties in the PRC, and the imposition of PRC income tax.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

PRC BUSINESS

The Wangfujing Project

Lot F1 (61.1% owned)

A temporary shopping mall, which was built on the boundary of Beijing Wangfujing Lot F1, has been fully let out. It brought in rental income of RMB13,542,000 (approximately HK\$12,764,000) in the year 2002. As at the end of the year in 2002, renewal of the loan facility of RMB200 million (approximately HK\$189 million) has been approved by the Bank of China, Beijing Branch.

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It is planned that the financing arrangement and reorganization works for Beijing Lucky Building Company Limited will be completed before the end of the year 2003 and it is also expected that the design proposal for the development of the Lucky Building will be completed by the end of the year 2003. The development of Lucky Building will be started in the year 2004.

Lot B3 (85% owned)

Another piece of land at Wangfujing where the building known as "Dan Yao Building" was built. The commercial area was re-opened in August 2002. Beijing San He Department Store Company Limited ("Beijing San He Department Store") was appointed to run the business, including the function, planning and decoration of the commercial area of 1,823.49 square metres being leased to Beijing San He Department Store. At the end of the year 2002, apartments with a total area of approximately 849.21 square metres were leased out.

The Xidan Project (29.4% owned)

As at the end of the year 2002, the second phase of the municipal works was completed. The remaining municipal works including those for Yu Pi Chai Road and Da Mu Cang South Lane will be completed within the year 2003.

In respect of the building located at Lot No. 1, on 26th July, 2002, Beijing Jing Yuan Property Development Co., Ltd. ("Jing Yuan") has signed a sale and purchase agreement with China Telecom Group Beijing Company Limited ("Telecom Group Beijing") to sell the whole building for a consideration of approximately RMB479,173,000 (approximately HK\$451,624,000). As at the end of the year 2002, the preliminary decoration and completion inspection of the building located at Lot No. 1 were completed. It is expected that the transaction will be completed in the year 2003.

As at the end of the year 2002, the preliminary decoration works for the building located at Lot No. 2 were completed and its commercial area was delivered to the resettlement units for carrying out decoration works. It is expected that the commercial area can be used in the year 2003. An invitation of design proposal for the building located at Lot No. 4 from the world was completed. The proposal selected has also been approved by Beijing Municipal Commission of Urban Planning which has issued a design proposal verification approval notice. The development for the design proposal and the preliminary works for this building will be completed in the year 2003. Inspection and record delivery of the building located at Lot No. 5 were also completed. The external decoration works and the installation of water and electricity facilities for the building located at Lot No. 9 were also completed. The internal facilities installation and internal decoration works for the building will be carried out and the building can be used in the year 2003. The examination of the design proposal for the building located at Lot No. 10 was completed and it is expected that the development for this building will be carried out in the year 2003.

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In the year 2002, Jing Yuan has started to examine and develop the proposal for the development of the underground shopping mall located beneath Xidan North Avenue. The basic information relating to the properties located at the western side of Xidan North Avenue and the underground utilities installation was collected. The design proposal for the development of underground shopping mall will be carried out in the year 2003.

HONG KONG BUSINESS

Property

The Group's residential properties situated at Red Hill Peninsula (33.33% owned) and South Horizons recorded average occupancy levels of approximately 57% and 61% respectively, while the commercial properties situated at Harbour Crystal Centre recorded an average occupancy level of approximately 50%. During the year, the Group's net rental income from property leasing was less than that in the last year mainly because of the decreases in rental and occupancy levels in properties.

GROUP ASSETS POSITION AND CHARGE ON GROUP ASSETS

The total assets of the Group, as a result of downward revaluation of the Group's property portfolio, have decreased from HK\$2,659,570,000 last year to HK\$2,548,120,000 this year. The net assets of the Group have also decreased from HK\$2,051,551,000 to HK\$1,938,483,000. The amount of the Group's bank borrowings where the property assets and bank deposits are pledged has decreased from HK\$375,174,000 last year to HK\$351,497,000 in the current year.

GROUP FINANCIAL POSITION, LIQUIDITY AND FINANCIAL RESOURCES

The total liabilities (including minority interests) of the Group have slightly increased from HK\$608,019,000 as at 31st December, 2001 to HK\$609,637,000 as at 31st December, 2002. The Group had cash at banks and in hand of HK\$36,621,000 as at 31st December, 2002 (2001: HK\$61,025,000). The ratio of total liabilities to total assets was approximately 24% (2001: 23%). As at 31st December, 2002, the aggregate amount of bank loans and bank overdrafts was HK\$351,497,000 (2001: HK\$375,174,000) and the amount of shareholders' funds was HK\$1,938,483,000 (2001: HK\$2,051,551,000), and therefore the capital gearing ratio was 18% (2001: 18%). Since 18th February, 2000, arrangement has been made with a bank in Hong Kong for overdraft facilities of HK\$100,000,000 of which HK\$15,224,000 has been utilized as at 31st December, 2002. Of the total borrowings, HK\$331,497,000 is repayable within one year and HK\$20,000,000 is repayable within two years. Directors believe that borrowings amounted to HK\$285,497,000 repayable within one year are renewable. For the year ended 31st December, 2002, the Group has no exposure to fluctuation in exchange rates and related hedges. In respect of contingent liabilities, there was a tax dispute with the Inland Revenue Department in respect of an associated company, the amount of our share of the potential tax liability is HK\$4,685,000 (2001: HK\$3,242,000). In addition, on 21st February, 2003, a buyer of the properties developed by Beijing Dan Yao Property Co., Ltd., the Group's 85% owned subsidiary, has lodged a civil action against the subsidiary to claim for the refund of the purchase consideration of the properties of US\$8,879,000

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(approximately HK\$69,256,000) and a penalty of US\$1,776,000 (approximately HK\$13,852,000) by reasons, among others, of not being able to obtain the property certificate within the timeframe as set out in the relevant sale and purchase agreement. Taking into account the advice from the solicitors, the Directors of the Company are of the view that it is too early to realistically assess the outcome of the case, and therefore, no provision has been made in the financial statements for the year.

EMPLOYEES AND SHARE OPTION SCHEME

As at 31st December, 2002, the Group, excluding associated companies, employed 107 people of which 75 were employed in Hong Kong.

In addition to basic salaries and the provision of mandatory provident fund scheme, employees are provided with medical insurance and some of them are included under a defined contribution provident fund scheme.

A share option scheme has also been established for senior executives of the Group pursuant to the terms and conditions stipulated therein, and are exercisable until 22nd June, 2002.

PROSPECTS

It is the unexpected that always happens. The war in the Middle East and the infection of Severe Respiratory Syndrome affect the economy of the world and Hong Kong and the development of which adds uncertainty. However, things will be better off if the evils have gone. The Group is now using wait and see approach and continues to adopt a solid and prudent financial strategy, and tries to increase its recurring income and reduce the development costs and operating expenses and will access opportunities when they arise.

Finally, I would like to take this opportunity to express my sincere thanks to my fellow Directors for their guidance and support and to all members of the staff for their loyalty and dedication during the year.

Dai Xiaoming
Chairman

Hong Kong, 15th April, 2003