

For the year ended 31st December, 2002, the Group recorded a turnover of approximately HK\$441,051,000, representing an increase of HK\$99,075,000 or approximately 29% as compared with the turnover of HK\$341,976,000 of the year 2001. The increase in turnover was mainly due to consolidate the full year contribution from the thermal power plant projects for the year 2002 amounted to HK\$147,840,000, representing a significant increase of HK\$111,221,000 as compared with that of HK\$36,619,000 last year.

The loss for the year was HK\$128,994,000, representing an increase in loss of HK\$114,169,000 as compared with the corresponding period last year. The increase in loss was mainly due to the HK\$46,226,000 revaluation deficit incurred during the year for certain investment properties acquired in previous years, and the HK\$43,164,000 net loss after the charge of goodwill previously written off in reserves amounted to HK\$118,195,000 arising from the disposal of the shares of Poly Investment Holdings Limited ("Poly"), and the HK\$20,419,000 impairment loss on long-term investment in securities. However, as charge of goodwill previously written off in reserves had no effect on net asset value, net asset value per share of the Group as at 31st December, 2002 still managed to reach HK\$2.77, representing an increase of approximately 1.4% as compared to that as at 31st December, 2001.

REVIEW OF CORE BUSINESSES

Property Investment and Development

The overall property market of the PRC underwent rapid development. Despite the indication that some of the markets were overheated, those in major cities were still considered under normal development. Property projects of the Group were mainly located in major cities such as Beijing and Shanghai, laying a sound foundation for the Group to grasp the tremendous business opportunities to be brought forth by the Olympic Game 2008 in Beijing and the World Expo 2010 in Shanghai.

Shanghai Stock Exchange Building

Shanghai Stock Exchange Building is the trading center for the PRC stock market and the place where the Shanghai Stock Exchange is situated. As a landmark construction, it has enormous market influence and a substantial inherent appreciation potential.

As at the end of 2002, rental income generated from the six floors of Shanghai Stock Exchange Building held directly by the Group was HK\$11,469,000, representing an increase of HK\$1,361,000 as compared with the year of 2001. Amidst fierce market competition and despite the drop in occupancy rate from full occupancy to 76%, the average daily rental rate still managed to increase by more than 30% from US\$ 0.26 per sq. metre to US\$ 0.38 per sq. metre.

In July 2002, the Company acquired 40% equity interests in Shanghai Puly Real Estate Development Company Limited ("Shanghai Puly") at a consideration of HK\$150 million (equivalent to approximately RMB160 million) as approved by the shareholders in an extraordinary general meeting. Shanghai Puly mainly holds a floor area of 35,351 sq. metres in Shanghai Stock Exchange Building. The property was valued by a Hong Kong valuer at approximately RMB500 million. The purchase price represented a discount of RMB40 million compared to the market

value of approximately RMB200 million of certain property held by the Group. After the acquisition, the total floor area of Shanghai Stock Exchange Building owned by the Group increased from 13,848 sq. metres to 27,988 sq. metres, thereby expanding the Group's property assets at Lujiazui financial centre in Shanghai.

Poly Plaza

The Group owns 75% equity interests in Poly Plaza in Beijing, which is a comprehensive multi-functional complex comprising a grade A office tower, a four-star ranking hotel tower, a theatre and other ancillary facilities and enjoys excellent reputation in Beijing.

For the year of 2002, the turnover of Poly Plaza reached RMB114,292,000 and a gross profit of RMB58,203,000, representing an increase of 11% and 24% respectively as compared with last year. The office tower achieved an average occupancy rate of 96.4% which is almost at the same level with the previous year. The occupancy rate of the hotel tower was 79%, which was 3% higher than the average occupancy rate of other similar ranking hotels in Beijing.

As approved by the shareholders of the Company in an extraordinary general meeting, renovation works for the exterior wall and hotel rooms of Poly Plaza commenced in 2003. The renovation would result in service suspension of the hotel rooms and cause a material impact on the office tower, thereby substantially reducing the operating income of the Group. It was also approved by the shareholders in an extraordinary general meeting that the "Basic Profit Guarantee" provided by the property management company of Poly Plaza to be suspended in 2003 and the terms of the Guarantee to be extended for a year correspondingly. The renovation works will upgrade Poly Plaza so as to attract more business travellers, tourists and office and commercial tenants, ultimately driving up operating profit. The renovation works are expected to be completed by September 2003.

Beijing Legend Garden Villas

For the year of 2002, the rental income of Beijing Legend Garden Villas amounted to RMB7,741,000, representing an increase of RMB2,249,000 as compared with that of last year. The Group owns 37 apartments and 20 houses in Beijing Legend Garden Villas, a residential development completed in 1992. The increase in market supply, coupled with the deterioration of furnishings and facilities, the competitiveness of Beijing Legend Garden Villas (especially the apartments) in the tenancy market was adversely affected. The Group has made sufficient provision of the property with reference to the current market value and will consider disposing portion of the property at reasonable market prices.

Thermal Power Plant Projects

The Group holds 52% and 51% equity interests in Shengzhou Xinzhonggang Thermal Power Co., Ltd. ("Shengzhou Power Plant") and Taicang Xinhaikang Xiexin Thermal Power Co., Ltd. ("Taicang Power Plant") respectively. Both power plants achieved satisfactory results in 2002. Shengzhou Power Plant recorded a turnover of RMB65,901,000 and a net profit of RMB11,466,000. The turnover of Taicang Power Plant amounted to RMB91,036,000 and the net profit was RMB14,186,000.

After in-depth consideration, the Group was of the opinion that thermal power cogeneration operations were environmental projects consistently supported and encouraged by the state policy. Therefore, it is worthy of further development given the rapid growth of demand in the electricity and thermal power market. Having conducted a field trip to conduct an assessment, the Group acquired 49% equity interests in each of Peixian Mine-Site Environment Cogen-power Co., Ltd ("Peixian Plant") and Dongtai Suzhong Environment Protection Co-generation Company Limited ("Dongtai Plant") at a consideration of HK\$77.4 million and HK\$50.6 million respectively. The two plants are located at Peixian and Dongtai in Jiangsu Province along the Yantze River Delta where the economy is developing at a tremendous pace. Peixian Plant has a total capacity of 1x15 megawatts and 1x18 megawatts and a gas supply capability of 3x75 tonnes/hr. Dongtai Plant has a total capacity of 2x15 megawatts and a gas supply capability of 2x75 tonnes/hr. During the first 10 years of cooperation, Golden Concord group, the cooperative partner of the Group, will guarantee the Group an annual profit of not less than HK\$9,288,000 and HK\$6,072,000, representing a return rate of 12% per annum.

It was provided in the acquisition agreements that the Group is entitled to acquire 1.1% equity interests in the two plants at a consideration of HK\$1 so that the Group would acquire an absolute controlling interest of 50.1% in Peixian Plant and Dongtai Plant in the event that Golden Concord group, the cooperative partner of the Group, fails to arrange for the listings of the two plants within 2.5 years.

REVIEW OF OTHER BUSINESSES

Shipping

The shipping industry underwent dramatic changes during the year under review. The dry bulk carriers market was at a trough for a lengthy period during the year, but rental rates were suddenly driven up in September. This was mainly due to the deficiency of new bulk carriers which gradually balanced the demand of freight and the supply of tonnage of freighters. The turnover of this operation for 2002 amounted to USD5,985,000, representing a decrease of USD 3,078,000 as compared with last year which was mainly due to the disposal of M.V. Jin Feng in 2002.

After taking into consideration of the fluctuating nature of the shipping industry and the high maintenance cost associated with old carriers, the Group disposed of M.V. Jin Feng at USD 4,575,000 in June 2002, resulting in a book loss of USD3,006,000. However, full amount has been accounted for in last year.

With the optimistic expectation from the shipping industry of the market condition, the Group expected that the rental income of its two bulk carriers will be improved in 2003.

Cultural Media and New High Technology

Cultural media and new high technology were business sections explored by the Group in seeking new points of growth. It demonstrates the Group's effort in ensuring its sustainable growth.

Polystar Digidisc Co. Ltd. ("Polystar")

The Group owns 66% equity interests in Polystar. In 2002, Polystar recorded a turnover of RMB47,621,000 and a profit of RMB5,804,000. The existing designed annual production capacity of Polystar is 26,000,000 CDs and 9,000,000 DVDs, whilst the actual production volume for the year has reached 28,890,000 CDs and 8,370,000 DVDs, exceeding the designed production capability. As such, Polystar intends to expand four disc duplication lines and one master disc production line and related facilities, targeting the market of high-end customers.

The Operation of New Satellite TV Cartoon Channel ("Cartoon Channel")

Cartoon Channel is a strategic move of the Group in exploring the cultural media industries in the PRC. The plan was basically completed and the program proposal of Cartoon Channel was formulated in 2002. New programs have been launched since June, with a six-hour period for first-time broadcast and the remaining eighteen-hour for rotational broadcast daily. Contents of programs have been initially approved by the PRC authorities responsible for broadcasting and communication, laying a solid foundation for obtaining approval of the right to broadcast programs into authorised areas and channels in the PRC. The Group will carry on with its devotions in 2003 to improve broadcasting arrangement and programme content.

Value-added software business

The Group acquired 25% equity interests in Skywin China Limited ("Skywin") at the end of 2001. Skywin is primarily engaged in the development of application software for telecommunications in Guangdong Province. In 2002, Skywin achieved a turnover of RMB104,662,000 and a profit of RMB19,402,000. The Group received a dividend of RMB8,000,000 from its shareholdings of preference shares in Skywin. Despite the adversity of the global economic change and the downturn of the telecommunications industry, Skywin strived to establish its presence in other provinces in the PRC such as Eastern China region, as well as in other industries, such as banking and financial systems and data networks in addition to the consolidation of its competitive edge in existing markets.

Insurance and Strategic Investments***Insurance***

The Group holds 48% equity interests in Winterthur Insurance (Asia) Limited ("Winterthur Insurance"), which principal business is through its holding of license for operating asset-based insurance businesses in Shanghai. The aggregate income from insurance fee for 2002 was RMB50,500,000, representing a 3.7% decrease as compared with the previous year. The reduction in net claims amount together with the investment income has enabled the Group to achieve a turnaround notwithstanding a drop in income from insurance fee. A net income of approximately HK\$3,200,000 from this operation was recorded. The operating effectiveness has improved as compared to the previous year.

Disposal of Poly

To adjust its asset structure, the Group disposed of its entire shareholding in Poly to an independent third party and Top Media Resources Limited, a non-related company incorporated in the British Virgin Islands respectively. A total amount of HK\$318,040,000 was received from the disposals and a profit of HK\$75,031,000 was generated. In spite of this, a book loss of HK\$43,164,000 was still recorded after taking into account of the loss on writing off the goodwill amounted to HK\$118,195,000. The Group has published a formal announcement regarding the details of the matter.

FINANCIAL REVIEW**Liquidity and Capital Structure**

As at 31st December 2002, the shareholders' funds of the Group amounted to HK\$2,236,000,000 (2001: HK\$2,215,000,000), while the net asset value per share was HK\$2.77 (2001: HK\$2.73). As at 31st December 2002, the Group's gearing ratio (on the basis of the amount of total liabilities less total bank balances divided by shareholders' funds) was 24.3% (2001: 30.4%).

As at 31st December 2002, the Group had outstanding bank loans of HK\$501,682,000. In terms of maturity, the outstanding bank loans can be divided into HK\$355,662,000 (71%) to be repaid within one year, HK\$34,320,000 (7%) to be repaid after one year but within two years, HK\$66,460,000 (13%) to be repaid after two years but within five years, HK\$45,240,000 (9%) to be repaid more than five years. In terms of currency denomination, the outstanding bank loans can be divided into HK\$308,138,000 (61%) in Renminbi, HK\$119,340,000 (24%) in US dollars and HK\$74,204,000 (15%) in Hong Kong dollars.

About two third of the bank borrowings of the Group are subject to fixed interest rates and the remaining one third are subject to floating interest rates. Therefore, under circumstances of interest rates uncertainty or fluctuations or otherwise as appropriate, the Group will consider the use of hedging instruments (including interest rates swaps), in order to manage interest rate risks.

As at 31st December 2002, the Group had working capital of HK\$252,000,000 and total bank balances of HK\$433,000,000 (2001: HK\$61,000,000 and HK\$215,000,000 respectively). In view of the Group's current cash balances, available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimised via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. Besides, as the Hong Kong dollar is linked to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi also fluctuates slightly, the Group believes that its exposure to foreign exchange risks is not material.

Pledge of Assets

As at 31st December 2002, bank deposits amounting HK\$86,620,000 (2001: HK\$28,580,000), certain of the Group's investment properties of approximately HK\$352,000,000 (2001: HK\$312,000,000), other property interests and motor vessels with an aggregate net book value of approximately HK\$1,330,239,000 (2001: HK\$1,224,825,000) and shares in certain subsidiaries and an associate were pledged to secure credit facilities granted to the Group.

Contingent Liabilities

At 31st December, 2002, the Company had given guarantees of approximately HK\$194 million (2001: HK\$120 million) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

In addition, at 31st December, 2002, the Group had given a guarantee of approximately HK\$14.3 million (2001: HK\$14.3 million) to a bank in respect of credit facilities granted to prospective purchasers of properties developed by a jointly controlled entity of the Group.

STAFF

As at 31st December, 2002, the Group employed about 1,000 staff with remuneration for the year amounting to HK\$63,394,000. The Group provides its staff with various benefits including year-end double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

PROSPECTS

Despite the uncertainty of the global economy, the management of the Group is confident in the economic development of the PRC and the prospects of the Group's PRC projects. The Group will continually adopt an active and prudent operating strategy in strengthening corporate governance, reducing operating costs, fully utilizing the cashflow from the disposal of other assets, further optimising the Group's business structure and dedicating its efforts to actively develop its principal business of property operations to enhance operating effectiveness and maximise the return to shareholders.