

Management Discussion and Analysis

REVIEW OF PERFORMANCE

Turnover and profit attributable to shareholders for the year ended 31st December 2002 were HK\$923,758,000 and HK\$81,026,000 respectively.

Turnover for the year increased by 235 percent as compared with last year. Profit attributable to shareholders decreased by 32.8% percent as compared with last year.

The increase in turnover was attributed to the inclusion of the business activities into the Group, substantial increase in sales of Shanghai Cannes.

Mainland China

China continues to offer good business and investment opportunities to the Group. As a result of strong demand for properties in Shanghai, Shanghai Cannes Phase 1 continued to enjoy satisfactory performance. Property prices in Shanghai continued to pick up during the year under review and even increased further after year end with low historical land cost and tight cost control, the Group envisaged substantial cashflow will be ploughed back in the coming year which will fuel further development of the Group.

For Concord World Plaza Phase 1, the Group held 168,000 square feet Tower 2 serviced apartments and 267,000 square feet shopping mall for long-term investment purpose. With the broyant business and retail market in Shanghai, the Group anticipates further improvement in rental yield and cash flow.

Hong Kong

The Group has successfully sold over 80 per cent of the residential units of the Blue Yard project located at the centre of Tsuen Wan during the year. Upon completion of construction in early 2003, the Group will hold 160,000 square feet of shopping arcade space for rental purpose.

SEGMENT INFORMATION

Details of segment information are set out in note 4 to the financial statements.

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REVIEW OF FINANCE

Employment of Gross Assets

	2002 HK\$'000	2001 HK\$'000
Investment properties	1,704,822	1,646,500
Properties under development	8,802,513	6,300,916
Properties held for sales	633,653	553,264
Others	2,148,130	1,777,887
Cash and bank balances	756,570	551,582
	14,045,688	10,830,149

Sources of Funding

	2002 HK\$'000	2001 HK\$'000
Issued capital	324,777	321,858
Reserves	6,782,124	5,099,651
Minority interests	979,112	678,668
Negative goodwill	1,465,624	1,500,570
Short term borrowings	2,150,538	1,233,119
Long term borrowings	2,343,513	1,996,283
	14,045,688	10,830,149

(1) Financial Position

Total funds employed for the year ended 31 December 2002 was HK\$13,966 million, 29 percent higher than HK\$10,830 million for the year ended 31 December 2001.

Investment properties and properties under development before positive and negative goodwill increased by HK\$2,594 million as compared with last year. It represented mainly revaluation surplus, additions on acquisition of subsidiaries and the costs incurred positive and for construction and development. These costs were financed by funds generated from operating activities and bank borrowings.

The gross asset value per share as at 31 December 2002 was HK\$4.30, compared with HK\$3.36 as at 31 December 2001.

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(2) Liquidity, Financial Resources and Gearing Ratio

The liquidity position of the Group was maintained at a satisfactory level during the year. Cash and bank balances at 31 December 2002 were HK\$757 million as compared with HK\$552 million at 31 December 2001.

The total bank and other borrowings less cash and bank balances at 31 December 2002 amounted to HK\$3,737 million, this compared with HK\$2,678 million at 31 December 2001.

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was maintained at a steady level of 28% during the year ended 31 December 2002 as compared with 26% for last year.

The Group's gearing ratio is healthy, and has sufficient funds to meet its commitment and operational requirements. The sale of residential units of the Group's property projects will further improve the liquidity.

(3) Treasury Policies

The Group continues to adopt a conservative approach in financial risk management. The majority of the Group borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi to fund its property projects. The Group's borrowings were mostly arranged on a floating rate basis. Should market conditions require, the Group will consider appropriate foreign exchange and interest rate hedging products to mitigate the Group's exposure.

The Group has not engaged in any highly leveraged or speculative products which are not in line with the Group's treasury management philosophy.

(4) Foreign Exchange Fluctuations

The majority of the Group's borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi while the sales of the Group are mainly denominated in Hong Kong dollars and Renminbi. Currently, the exchange rates of Renminbi and United States dollars against Hong Kong dollars have been stable. During the period under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

(5) Charges on Group Assets

Details of charges on group assets are set out in notes 14, 15, 16, 20 and 25 to the financial statements.

(6) Contingent Liabilities

Details of contingent liabilities are set out in note 41 to the financial statements.

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ACQUISITION OF SUBSIDIARY

During the year under review, the Group had successfully acquired 50.45% interest in Winsan (Shanghai) Industrial Co. Ltd, a A-share company whose A-shares are listed on the Shanghai Stock Exchange.

EMPLOYEES

As at 31 December 2002, the Group had 1,512 employees. The Group determined their salaries in accordance with their performances and market situation and provided them with other benefits, including a provident fund scheme, medical scheme and casualty insurance.

COMMITMENT OF STAFF DEVELOPMENT

The Group fully recognises that human capital is a key asset to the growth and profitability. The Group therefore gives due emphasis to staff training and implements a policy of sponsoring staff to attend in job-related training and self-improvement programs.