

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

In 2003, the Group achieved a net profit attributable to shareholders of HK\$203 million in contrast to last year's loss of HK\$252 million, restated. Despite the depressing operating environment in the first half of the year which fortunately recovered strongly in the second half, the Group performed well both operationally and financially. All major business segments of the Group contributed to the favourable results for the year.

RESULTS FOR THE YEAR

Turnover for the year 2003 totalled HK\$1,812 million which was 62 per cent. higher than HK\$1,117 million recorded in 2002. Property investment, securities investment and food businesses remained principal sources of revenue of the Group, contributing 16 per cent. (2002 – 10 per cent.), 39 per cent. (2002 – 17 per cent.) and 35 per cent. (2002 – 51 per cent.), respectively, of the total turnover.

Property

Turnover from property investment increased 150 per cent. to HK\$284 million (2002 – HK\$114 million) and operating profit increased 65 per cent. to HK\$106 million (2002 – HK\$64 million, when write-back of deficit on revaluation of investment properties of HK\$57 million, restated, was excluded).

Rental income from the properties in the People's Republic of China ("China") increased satisfactorily by 13 per cent. as a result of higher occupancy and rental rates. The Group has been focusing on the market in China since the last few years in order to seek a replenish portfolio. The property market in China continued to be robust with rental contribution from China properties increased from 62 per cent. to 68 per cent. in 2003.

On the other side, the local property market was depressing for most of the year. Owing to further drop in property value, a provision of HK\$11 million (2002 – HK\$29 million) was made against the Group's properties held for sale. Although property prices had been improving gradually since the last quarter of the year, leasing rates remained low under the ample supply of both commercial and residential properties. However, given the quality and the strategic locations of the Group's property portfolio, the leasing of the local properties progressed well with high occupancy rates. It remained as a stable recurrent income source of the Group.

During the year, the Group was able to dispose of certain properties in China and Hong Kong, resulting in a gain of HK\$41 million.

Securities investment

Turnover from securities investment increased 278 per cent. to HK\$700 million (2002 – HK\$185 million). The resultant operating profit of HK\$119 million (2002 – loss of HK\$163 million) reflected the Group's efforts to enhance return of its assets.

During the year, the Group reacted to declining deposit rates and diversified into higher yielding bonds and equity investments. Total investment portfolio at the end of 2003 stood at HK\$1.9 billion (2002 – HK\$1.3 billion). The Group remained cautious on the composition of its investment portfolio. The performance of the investment portfolio improved substantially, producing a significant net realised and unrealised gain of HK\$169 million (2002 – loss of HK\$61 million) which included an unrealised gain of HK\$20 million (2002 – Nil) on

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transfer of certain held-to-maturity securities and investment funds to other investments in securities to reflect the intention to sell in response to market changes. However, a provision for impairment in value of HK\$33 million (2002 – HK\$67 million) was made against its long-term investment securities.

Food businesses

Turnover from food businesses amounted to HK\$630 million, being 11 per cent. higher than the HK\$568 million recorded in the year of 2002. This segment registered an operating profit of HK\$22 million in contrast to a loss of HK\$30 million in 2002.

Food businesses mainly comprise wholesale distribution of food and allied fast-moving consumer goods and food manufacturing in Singapore. Despite the economic impact of the outbreak of Severe Acute Respiratory Syndrome and the continuing downturn in Singapore and regional economies, higher sales were recorded by the Group's wholesale and distribution business. The Group acquired new brands in 2003 and both existing and new brands contributed to the growth. In addition, food manufacturing business registered a favourable turnaround, reflecting improved cost and operational efficiencies.

Other operating profit

During the year, the Group acquired an additional interest of 2.2 per cent. in Hongkong Chinese Limited ("HKCL"), a listed subsidiary of the Company, giving rise to a negative goodwill of HK\$40 million which was recognised as income in the consolidated profit and loss account. Subsequent to the acquisition, the Group's effective shareholding in HKCL increased to 73.3 per cent.

Finance costs

Total finance costs reduced greatly by 39 per cent. from HK\$63 million to HK\$38 million in 2003. The Group remained financially strong with total borrowings reduced by 17 per cent. In addition, in light of declining lending rates, the Group refinanced certain bank loans with lower cost financing.

Share of results of associates

The Group's associates also performed satisfactorily with total contribution, net of tax, amounted to HK\$41 million (2002 – loss of HK\$5 million). The Group's 25 per cent. owned power plant company in Fujian Province, China was the main contributor of the income. The operating performance of the power plant was significantly improved with high availability and dispatch level of electricity throughout the year.

FINANCIAL POSITION

At 31st December, 2003, total assets and net asset value of the Group increased slightly to HK\$8.3 billion (2002 – HK\$8.1 billion) and HK\$4.3 billion (2002 – HK\$4.1 billion, restated), respectively. Consolidated net asset value per share stood at HK\$0.47 (2002 – HK\$0.45, restated).

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The Group's financial position remained strong with liquidity ratio standing at 3.3 to 1 (2002 – 2.8 to 1). The certificates of deposit of HK\$1 billion were redeemed at par in cash during the year. As aforesaid, the Group reduced total borrowings by 17 per cent. and accordingly, the gearing ratio (total borrowings, net of minority interests, to shareholders' equity) was reduced to 20.7 per cent. (2002 – 23.8 per cent., restated) which was well below the average among companies in the same industry.

During the year, the Group repaid an unsecured loan note of HK\$58.5 million issued by the Company to Lippo Limited, an intermediate holding company of the Company, in full. The borrowings of the Group as at 31st December, 2003 comprised secured bank loans of HK\$968 million (2002 – HK\$1,113 million) and an unsecured bank loan of HK\$10 million (2002 – HK\$10 million). The bank loans carried interest at floating rates, 28 per cent. (2002 – 38 per cent.) of which was repayable within one year. Certain leasehold land and buildings, investment properties, properties under development, properties held for sale and shares in certain subsidiaries owned by the Group and certain securities owned by margin clients of the Group were pledged to secure banking facilities made available to the Group. Almost all the bank loans were denominated in United States dollars or Hong Kong dollars. Where appropriate, hedging instruments including forward contracts, swaps and currency loans were used to manage foreign exchange exposures.

Other than those relating to the banking operations, the Group had no material contingent liabilities outstanding as at 31st December, 2003 (2002 – Nil).

CHANGE IN ACCOUNTING POLICY

As a result of the adoption of the revised accounting standard in relation to deferred tax, a provision of deferred tax liabilities of HK\$116 million was retrospectively made in periods prior to 1st January, 2003. Shareholders' funds of the Group and the consolidated net asset value per share as at 31st December, 2002 were restated at HK\$4.1 billion and HK\$0.45, respectively, which were previously reported as HK\$4.2 billion and HK\$0.46, respectively. Loss attributable to shareholders for the year 2002 was restated at HK\$252 million which was previously reported as HK\$271 million. Details of the change are set out in Note 2 and Note 3(q) to the financial statements, respectively.

STAFF AND REMUNERATION

The Group had 906 employees as at 31st December, 2003 (2002 – 740 employees). Total staff costs amounted to HK\$185 million during the year which was slightly lower than the HK\$191 million recorded for 2002. The Group offered competitive remuneration packages to its employees. Certain employees of the Group were granted options under share option schemes of respective companies.

OUTLOOK

With global and regional economic outlook improving in recent months, the local economy is expected to improve in the coming remaining months of the year. The Group shall continue to take advantage of improved operating performance and its strong financial position to seek appropriate new investment opportunities. Management shall continue to adopt a cautious and prudent approach in assessing new investment opportunities.