

## DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

Hong Kong achieved a strong economic growth in 2004 and the global economy expanded by 4 per cent., the best since 2000. Amid the remarkable recovery in market conditions last year, the Group's turnover increased by 54 per cent. to HK\$2,793 million (2003 – HK\$1,812 million).

The Group's property and food businesses continued to perform well. However, the Group's performance was affected by volatile investment markets during the year with a substantial reduction of profit arising from treasury and securities investments. Against this background, the Group recorded a net profit attributable to shareholders of HK\$46 million (2003 – HK\$163 million when non-recurrent negative goodwill recognised as income of HK\$40 million was excluded).

### RESULTS FOR THE YEAR

Turnover for the year totalled HK\$2,793 million which was 54 per cent. higher than the HK\$1,812 million recorded for 2003. Property, food businesses and treasury and securities investments remained the principal sources of revenue of the Group, contributing 9 per cent. (2003 – 16 per cent.), 31 per cent. (2003 – 35 per cent.) and 56 per cent. (2003 – 43 per cent.), respectively, of total turnover.

#### Property

Property investment achieved a profit of HK\$129 million for the year, which was 21 per cent. higher than the HK\$106 million recorded in 2003, although turnover for this business segment reduced from HK\$284 million to HK\$254 million.

During the year, the Group disposed of certain of its properties in Hong Kong, China and Australia for HK\$128 million (2003 – HK\$167 million), of which 86 per cent. (2003 – 8 per cent.) was attributable to properties situated in Hong Kong. Boosted by the improving local property market, gross profit margin is higher at 27 per cent. (2003 – 24.5 per cent.). In addition, rising property prices, particularly in Hong Kong, also resulted in a surplus of HK\$358 million arising on revaluation of the Group's investment properties, which was credited to the Group's revaluation reserve.

On the other hand, rental income generated from the Group's portfolio continued to increase, though at a moderate pace of 8 per cent., as a result of higher occupancy and renewed rental rates. Total rental income for the year amounted to HK\$126 million (2003 – HK\$117 million). It remained as a stable and recurrent income source of the Group. The growth of rental income in China is comparably higher with Lippo Plaza in Shanghai achieved almost full occupancy throughout the year. As a result, rental income attributable to the Group's overseas properties increased to 71 per cent. (2003 – 68 per cent.) of the total rental income whereas that attributable to local properties reduced to 29 per cent. (2003 – 32 per cent.).

In order to replenish the Group's property portfolio and enhance the stable income source, the Group acquired new properties for rental purpose and participated in well located property development projects in Macau, China, Singapore and Japan. During the year, the Group invested over HK\$200 million in property investment.

### **Food businesses**

The Group's food businesses produced encouraging results in 2004. This segment registered a 38 per cent. increase in turnover to HK\$870 million (2003 – HK\$630 million) and reported a profit of HK\$32 million, which is 43 per cent. higher than the HK\$22 million recorded in 2003. Food businesses mainly comprise wholesale and distribution of food and allied fast-moving consumer goods and food manufacturing in Singapore, Malaysia and China.

The increase was mainly contributed by the new subsidiaries acquired by the Group in December 2003. These subsidiaries are mainly engaged in food distribution and manufacturing in Malaysia. In addition, the Group's marketing division was strengthened by partnering with a number of new international brands in 2004.

The Group is constantly on the lookout for opportunities to acquire good businesses with strategic fit for the Group. During the year, the Group also completed the acquisition of a subsidiary which was engaged in the dairy production business in Foshan, China. It complements the Group's existing regional food manufacturing and distribution and represents the Group's first expansion into the China food market.

### **Treasury and securities investments**

Turnover from treasury and securities investments increased by two-fold to HK\$1,566 million (2003 – HK\$776 million). In 2004, the Group took advantage of the improving equity market conditions to actively realise the investments, resulting in a realised gain of HK\$53 million (2003 – HK\$42 million). Also, in anticipation of likely rises in interest rates, the Group has taken steps to adjust its investment portfolio by realising certain bonds and investment funds to a total of HK\$448 million (2003 – HK\$278 million). However, due to volatile market conditions, the Group recorded an unrealised holding loss on other investments in securities of HK\$68 million (2003 – gain of HK\$96 million) at year end, representing 4.9 per cent. (2003 – 7.7 per cent.) of the total portfolio. As a result, the net gain from this segment reduced to HK\$64 million (2003 – HK\$191 million). Notwithstanding the volatility of the investment markets, the bond portfolio continued to contribute high and stable interest income to the Group.

### **Infrastructure investment**

The Group has a 26.3 per cent. interest in a power plant in Fujian Province, China whose operating performance continued to maintain at a satisfactory level during the year. Profit from the project company has been included under the Group's share of results of associates. In June 2004, the refinancing arrangement with the domestic banks in China was successfully completed. The new financing arrangement replaced foreign currency denominated loans with Renminbi, which enables it to match with the electricity income which is also denominated in Renminbi and reduces the project company's exposure to exchange rate risk.

## FINANCIAL POSITION

As at 31st December, 2004, total assets of the Group increased by HK\$0.4 billion to HK\$8.7 billion (2003 – HK\$8.3 billion) with consolidated net asset value increased correspondingly to HK\$4.7 billion (2003 – HK\$4.3 billion), equivalent to HK\$0.51 per share (2003 – HK\$0.47 per share). The increase was mainly attributable to the property revaluation surplus and the net profit for the year.

The Group's financial position remained strong and healthy with liquidity ratio standing at 3.18 to 1 (2003 – 3.30 to 1) at end of the year. Total borrowings increased by 23 per cent. to HK\$1,199 million (2003 – HK\$978 million), comprising secured bank loans of HK\$1,152 million (2003 – HK\$968 million) and unsecured bank loans of HK\$47 million (2003 – HK\$10 million). The increase was in line with the expansion of the Group through the acquisition of new subsidiaries. Certain properties, fixed assets, shares in certain subsidiaries and certain securities of the Group and certain securities owned by margin clients of the Group were pledged against secured banking facilities. Almost all the bank loans were denominated in United States dollars or Hong Kong dollars, carrying interest at floating rates and 39 per cent. (2003 – 28 per cent.) of which was repayable within one year. Despite the increase in loan balance, the Group's gearing ratio (measured as total borrowings, net of minority interests, to shareholders' equity) remained low at 22.6 per cent. (2003 – 20.7 per cent.).

The Group monitors the relative foreign exchange position of its assets and liabilities and allocates accordingly to minimise foreign exchange risk. When appropriate, hedging instruments including forward contracts, swap and currency loans were used to manage the foreign exchange exposure.

On 18th June, 2004, the Company agreed to indemnify one of its associates against a potential liability arising from claims made by the associate's contractor to a maximum obligation of US\$11.3 million (equivalent to approximately HK\$88 million). On 28th March, 2005, such contingent liability ceased as a result of the settlement of the aforesaid claims between the associate and the contractor.

Save as aforesaid and other than those relating to the banking operation, the Group had no material contingent liabilities outstanding as at 31st December, 2004 (2003 – Nil).

## STAFF AND REMUNERATION

The Group had approximately 1,018 employees (2003 – 906 employees) as at 31st December, 2004. Staff levels were managed in line with business needs and market opportunities. Total staff costs during the year amounted to HK\$207 million (2003 – HK\$185 million). The Group ensures that its employees are offered competitive remuneration packages. Certain employees of the Group were granted options under share option schemes of their respective companies.

## OUTLOOK

The Group is cautiously optimistic about the global and regional economic prospects and is confident that it would be able to take advantage of investment opportunities in Hong Kong and neighbouring countries in its pursuit to enhance shareholders' value. The Group will continue to adopt a cautious and prudent approach in assessing new investment opportunities.