

## CORPORATE RESULTS

During the financial year under review, the turnover was HK\$796 million, an increase of 15% as compared to HK\$692 million of the corresponding period in 2002. The company incurred a loss attributable to shareholder of HK\$132 million in the year 2003. Included in the loss for the year ended 31st March, 2003 of our share of loss amounting to approximately HK\$52 million in a listed associate in Hong Kong, Far East Technology International Limited in which the Group owns 28.2% during the year; loss on disposal of a rental property amounting to HK\$22 million; and government profit tax assessments on prior year transactions on a rental property in a fully-owned subsidiary of HK\$16 million. The aggregate of the aforesaid totalling HK\$90 million which in the opinion of the management are "one-off" exceptional items and are non-recurring in nature. However, the operation of the hotel division in Hong Kong continued to yield good return in the year under review.

## FINANCIAL RESOURCES AND LIQUIDITY

Business activities of the Group are funded mainly by bank borrowing and cash generated from operating activities. As at 31st March, 2003, the Group total borrowing amounted to HK\$1,594 million (2002 – HK\$1,209 million) with HK\$520 million repayable within one year and HK\$1,074 million repayable beyond one year. The majority of such increase was due to an acquisition during the year under review of our proposed 460 rooms hotel property in Queen's Road East, Wanchai, Hong Kong for approximately HK\$350 millions inclusive of refurbishment and renovation costs.

As at the year end, all the Group's borrowings bear interest rates charged were in line with the best lending rates either at prime or based on the Hong Kong Inter-bank offer rate. As a result of the abovesaid acquisition of the 460 rooms hotel, the Group's gearing ratio increased to 0.66 as at 31st March, 2003 from the previous year of 0.5 based on total borrowing of HK\$1,594 million over the Group's shareholder's fund of HK\$2,397 million.

### Current Ratio

The current ratio (current assets/current liabilities) of the Group at 31st March, 2003 was 1.3 (2002 – 1.1)

### Exchange rate

The group was not exposed to material exchange rates fluctuation during the year.

### Pledge of assets

As at 31st March, 2003, certain of the Group's properties and bank deposits with an aggregate value of HK\$2,225 million (2002 – HK\$1,707 million) have been pledged to bank to secure credit facilities to the Group.

### Contingent Liabilities

As at the balance sheet date, total contingent liabilities of the Group in respect of guarantees issued to secure the banking facilities made available to the subsidiaries, third parties and an investee company were approximately HK\$78 million (2002 – HK\$82 million)

### Acquisition and disposals

During the year under review the Group acquired an existing building in Wanchai which is to be refurbished into a 460 rooms 4 star hotel. This is in line with the Group's overall strategy to focus on 3 to 4 star hotel as well as property development and property investment in Hong Kong and China. The Group also continues to dispose off several overseas assets and non performing assets in Hong Kong during the year under review.

## REVIEW OF OPERATION, OUTLOOK AND STRATEGY

### 1. Property Development Division

#### *Hong Kong*

*Baker Street, Hung Hom* – This is a 32-storey commercial-residential development with a gross floor area of approximately 55,000 sq.ft. comprises of 104 residential units, 26 car parks and 2 floors of commercial shopping units. The building was completed and occupancy permit obtained at the end of the year 2002. Over 75 units have been sold to date.

*Pak Shek Wo, Sai Kung* – This is a 15 units detached house development with a total gross floor area of 18,000 sq.ft built on a 30,000 sq.ft. site. Construction started in the year 2002 and due for completion by the end of the year 2003. The sales launch is scheduled in August/September 2003.

*Chuk Kok, Sai Kung* – This is a 10 units detached house development with a gross floor area of 12,000 sq.ft built on a 30,000 sq.ft. site. The construction is currently in progress and the completion is expected by end of the year 2004. The sales launch is scheduled in the middle of the year 2004.

*Tan Kwai Tsuen, Yuen Long* – This project is a 4-storey apartment development with 62 units with a total gross floor area of approximately 52,000 sq.ft. The company is in the process of applying land exchange and access road formation.

*Sheung Yeung, Sai Kung* – This project is a development of 24 village houses with a total gross floor area of approximately 50,000 sq.ft. Building work on phase 1 with 4 houses has commenced in July, 2002 and due for completion by end of the year.

*Hung Shui Kiu, Yuen Long* – This is a 7-storey residential development project with a total gross floor area of approximately 38,000 sq.ft. The company is currently in the process of applying for land exchange.

*Fung Lok Wai, Yuen Long* – This is a raw land investment for residential estate development with a total land area of approximately 8,610,000 sq.ft. The Group holds an approximately 21.66% beneficial interest in this project. The controlling shareholder in this joint venture being Cheung Kong (Holdings) Ltd. is the agent and project manager of this project.

### *China*

*California Garden, Shanghai* – New China Homes Ltd. has completed 2,388 units of residential and commercial property sitting on a total land area of approximately 4.5 million sq.ft. with a gross floor area of approximately 3.6 million sq.ft. over 98% of the units have been sold to date. The Group decided to privatise New China Homes Ltd. pursuant to an announcement to the Company's shareholders dated 24th January, 2003 and the privatisation was completed on the 23rd of April, 2003 with over 95% of New China Homes Ltd. shareholders accepted the proposal.

*Bauhinia Garden, Shanghai* – This is a 390 units of townhouse development with a total gross floor area of approximately 0.92 million sq.ft and sitting on a total land area of 1.15 million sq.ft. The construction is currently in progress. The completion is expected by beginning of the year 2004. The sales is expected to launch in the fourth quarter or by the end of the year 2003.

*New Time Plaza, Guangzhou* – The Group owns 45% of this development comprises of an auxiliary building completed with 8,000 sq.m. and a proposed 29-storey residential tower with a gross floor area of approximately 27,000 sq.m. Construction work is in progress.

### *Malaysia*

*Karunmas Ehsan* – This project consists of a total of 812 units of terrace house, condominium, low cost flats and shop offices. Occupancy Permits for Phase 1, 2 and 3 totaling 426 units of terrace houses, 240 units of condominiums and 41 units of shop houses have been obtained. More than 80% of the completed units have been sold to date. There are 105 units of low cost apartment still under construction and expected completion by end of the year 2003.

*Taman Teluk Gedong Ludah* – This project consists of 628 units of terrace houses and 200 units of low cost flats. The terrace houses have been completed and occupancy permit obtained while the low cost flats are still under construction.

### *Australia*

*Flinder Wharf, Melbourne* – The Group owns 50% of this high-class residential development with 301 units located on the Yarra River in the city of Melbourne next to the Melbourne Exhibition and Convention Centre and The Crown Casino. The project has achieved over 90% sold to date. Construction commenced in February 2002 and as of to date the project is over 70% completed and it is scheduled for full completion by the fourth quarter of 2003.

## **2. Hotel Division**

*Dorsett Garden Hotel and Dorsett Seaview Hotel* – The Group operates two 3-stars hotels in Hong Kong with a total of 368 rooms. The two hotels maintain an average occupancy rate of over 90% throughout the period under review and provide a steady income to the Group.

*Dorsett Regency Hotel, Kuala Lumpur* – This 320 rooms hotel is located right at the Centre Business District of the busy Kuala Lumpur. The hotel continues to perform well with an average occupancy rate of close to 80% for the period under review, maintaining its status as one of the top 4-star hotel in Kuala Lumpur.

*387 Queen's Road East, Wanchai* – This is a 21 storey 4 star hotel refurbishment project with a total of 460 rooms and a gross floor area of approximately 183,000 sq.ft. The refurbishment started at the beginning of this year and is expected to complete by December 2003.

*Kau U Fong, Central* – This is a hotel development site for approximately 167 rooms in a 34-storey building with a total gross floor area of approximately 63,000 sq.ft. Building plans have been submitted for government approval. Completion date for this hotel is scheduled by the end of the year 2004.

*Anchor Street, Tai Kok Tsui* – a 21-storey hotel development with approximately 137 rooms with a gross floor area of 46,000 sq.ft. With the town planning application approved, construction has commenced in November 2002 and is scheduled for completion by the middle of the year 2004.

*Dallas Grand Hotel, Dallas, USA* – after the 911 event in the USA, the Group has decided to tie up this hotel with an international 'Brand' and is currently reviewing the franchise arrangement with the prospective Brand. The refurbishment and upgrading program of this hotel will commence when the franchise agreement is finalised and the financing of the refurbishment project is obtained.

### 3. Industrial and Infrastructure Division

The boiler factory in Guangzhou had a moderate performance. The Board believes that the operation of the boiler factory will gradually improve.

The Company has completed construction of a 68% interest in the 44km of the National Highway 311 in Henan Province, which has been fully operational since January 2001 with two-ways toll road collections. This investment yields a good return (approximately HK\$12.5 millions) for the Group in the period under review.

### 4. Recurrent Income

The Group's rental income comes mainly from commercial/office buildings in Hong Kong. The occupancy rate of leased tenants maintains at an average of more than 85% during this review period. The current annually recurring rental revenue is approximately HK\$75 million with a potential to increase to more than HK\$100 million a year once the renovation of Mongkok building is completed by end of 2003. The Group's hotel division also provides a steady cash flow from its operation.

### 5. Corporate Overview

Despite the unfavourable economic environment in Hong Kong during the year under review, the Group was fortunate to maintain growth in both turnovers and quality assets. We have achieved this objective by taking advantage of the changing market conditions in both China and Hong Kong for the past five years in property acquisitions in Hong Kong, timely investment in hotel industries in Hong Kong and property investment and development in Mainland China.

The Group's three residential projects at Pak Shek Wo, Chuk Kok and Sheung Yeung which will be launching for sales in the next six months together with the completed project Bakerview in Hung Hom currently on sales in the market, are expected to be fully sold at reasonable prices would contribute total sales in excess of HK\$300 million in the ensuing year. The Group will be benefited from this sector as these land properties were bought in post-1997 when the prices were reasonable.

The Group commenced its hotel division in Hong Kong, in early 2001 with the acquisition of two 3-star hotel (with 368 rooms) and has contributed satisfactory yield to the Group. To date, the Group has one 4-star hotel with 460 rooms under refurbishment which will be ready for operation in early 2004 and two new-built hotels (with 304 rooms) under construction which will be completed in 2005. Your directors are confident that the hotel division will provide steady cash flow and good recurring income to the Group in the ensuing years.

With the satisfactory results and experience in the California Garden residential project in Shanghai, the Group will continue to explore and to develop residential projects in Shanghai and other selected cities in Mainland China to take advantage of the upsurging economy and the huge emerging market of the decade.

Your directors will remain cautious in evaluating markets conditions and investment opportunities, with the principal aim to maintain a healthy cash flow position and a solid foundation for future expansion of the Group.

**David Chiu**

*Deputy Chairman and Chief Executive Officer*

Hong Kong, 25th July, 2003