

## Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31st March 2003 to the shareholders.

### REVIEW OF OPERATIONS AND FUTURE PROSPECTS

#### Results

Turnover for the year amounted to HK\$1,214 million, representing an increase of 40% over last year. Loss attributable to shareholders was HK\$375 million, a 144% increase from HK\$154 million of last year. Net assets decreased by HK\$540 million to HK\$2.23 billion, or HK\$14.88 per share.

#### Property sales, leasing and development

The Group's shareholding in Asia Standard International Group Limited ("Asia Standard") remained at 53.4% as at 31st March 2003. Mainly affected by provisions on properties, Asia Standard recorded a loss attributable to shareholders of HK\$283 million. This represents a 41% decrease from HK\$481 million of last year. Turnover on property sales were nearly doubled to HK\$470 million compared with HK\$254 million of last year. Majority of sales was generated from the luxurious Royalton II at Pokfulam and the mid market residential Oakridge at Shaukeiwan, which were launched to market towards the end of the previous financial year. Over 70% for Royalton II and all residential units for Oakridge are sold.

Rental income maintained approximately the same despite the high occupancy rate achieved by the office building, 8 Wing Hing Street in Causeway Bay, its effect was offset by the sale of one whole retail floor in 28 Marble Road, which was previously earning rental income. Rental income for Asia Orient Tower and Asia Standard Tower were quite stable.

The construction of two luxurious developments at Repulse Bay and Shiu Fai Terrace progress smoothly following the conclusion of land premium at beginning of the financial year. Completion is expected towards the third quarter of year 2003. Presale consent was applied and sales campaign will be launched shortly.

The Group has also been actively pursuing the lease modification and land premium negotiation of four development sites totalling approximately 860,000 sq.ft. gross floor area.



*Grosvenor Place, Repulse Bay*

## Hotel

The hotel subsidiary contributes HK\$448 million (2002: HK\$425 million) to the Group's turnover, accounting for 37%. The full operation of Empire Hotel Kowloon since March 2002 accounts for the overall revenue increase in this sector. Visitors to Hong Kong increased substantially during the year due to significant influx of Mainland travelers until the outbreak of SARS in early March 2003. The situation improves lately since WHO uplifted the travel warning to Hong Kong towards the end of May 2003. Management exercise stringent cost control to maintain the competitiveness and profitability of our Group's hotels.



Lobby



The Empire Hotel, Kowloon



Products with Q9 Chinese Input System embedded

## Investments

The 32% owned GEM board listed technology investments, Q9 Technology Holdings Limited ("Q9 Holdings") once again won the 2002 Federation of Hong Kong Industries Consumer Product Design Award by its newly developed Q9 CIS English version. Agreement was established with the Vocational Training Council for Q9 Chinese input skill be a recognised qualification by employers in Hong Kong. The company commence to have licensing fees from those phone

manufacturers with Q9 CIS embedded in their products. In Shangdong Province, Q9 CIS has been endorsed as an educational tool for primary and secondary schools. In March 2003 the company signed agreement with a subsidiary of UTStarcom Telecom to deploy Q9 CIS in all its products which require Chinese Input System. We anticipate Q9 Holdings' results will improve in the years ahead.

Following the Group's initial investments at end of last financial year on medical and health sector, further investments were made in this area of medical and health sector on (i) commercial sponsorship of research and development project carried out by the Beijing Medical University on athletic and diabetes drinks to reduce fat level in human blood and improve sports performance of athletics. The research is in its initial stage and expect to last another 2 years before commercial production of its end products; (ii) distribution in Asia of a personal beauty and healthcare system which, by deploying a patented micro-nebulisation treatment, penetrates every cell in the human body with soluble health substances (e.g. minerals, vitamins) and revitalise it, thereby retarding the aging process. Programme to enter into China and Japan market is underway.

The Group maintains its 40% interests in China Infobank which possesses one of the largest database of mainland Chinese business information. Users include universities, consultants, finance and banking corporations, professional companies and public relation firms. Efforts are concentrated in business penetration and streamlining operation. The Group continues its investments in web-based software developer.



*Vitasalin Vital Cabin*

### FINANCIAL REVIEW

At 31st March 2003, the Group's net asset value per share was HK\$14.88, compared with HK\$18.49 at 31st March 2002 (adjusted for the share consolidation in November 2002). Gearing ratio is 64% (2002: 58%) with a net debt of HK\$2,818 million and shareholders funds plus minority interests of HK\$4,413 million. The Group held HK\$143 million marketable securities at year end. Interest cost reduced significantly by 25% resulting from the low interest environment compared with last year.

All the Group's borrowings are in Hong Kong dollars except for the mortgage loan of the Vancouver hotel which is denominated in Canadian dollars, the loan is served by the Canadian Dollars receipts of the hotel and accordingly there is no exchange risk exposure. Over 82% (2002: 80%) of the Group's borrowings were repayable after one year, with repayment schedules spreading over a long period of time to over 10 years.

As at 31st March 2003, properties with an aggregate net book value of HK\$5,897 million (2002: HK\$6,212 million) were pledged to secure banking facilities of the Group. The Group has also provided guarantees to banks and financial institution on credit facilities to jointly controlled entities, associated companies and third parties of HK\$482 million (2002: HK\$416 million).

During the year, the Group undergo a capital reorganisation of consolidating 50 shares of the Company into one shares and reduction of nominal value of each share from HK\$0.25 (after share consolidation) to HK\$0.10. The scheme was effective on 12th November 2002.

On 16th January 2003, the Company successfully placed HK\$60 million convertible notes. The notes bear 5% interest per annum for a conversion period of two years at conversion price of HK\$1.10 during the first year and HK\$1.20 during the second year.

### EMPLOYEES AND REMUNERATION POLICIES

At 31st March 2003, the Group employed a total of 606 full time employees, with over 59% working for the hotel subsidiary group and 34% for building management services. Their remuneration package, which commensurate with their job nature and experience level, include basic salary, annual bonus, retirement and other benefits. There was no share option granted during the year.

### PROSPECTS

Over the last year Hong Kong is still experiencing low asset prices, which certainly attract people to acquire real estate in this low interest rate environment. The long awaited government housing policy announced in November 2002, conveyed its intentions and positive support to the public of preventing further drop in property price and ultimately let the general public re-build their confidence in this sector. Coupled with the further drop in interest rate in the same month, the property sector became stable and will gradually improve in the coming year.

After the 9-11 event, the travel industry worldwide has been temporarily disrupted. Situation in Hong Kong has improved rapidly thereafter and the significant growth of PRC visitors have been a major contributor. The trend is however reversed towards the end of the financial year with the sudden outbreak of SARS. Business dropped to a historic low not encountered before. Hong Kong is now removed from WHO's list of infected area, and the government is spending huge sum of money (over HK\$10 billion) to regain the prosperity prior to the outbreak.

In the past few years, apart from the real estates and hotels, the Group has been gradually investing in other business in the technology arena, including information technology, medical and health. These investments are at the start up stages and with careful nurturing, we have confidence that these projects will contribute to the profit of the Group.

**Fung Siu To, Clement**

*Chairman*

Hong Kong, 22nd July 2003