
FINANCIAL AND OPERATING REVIEW

CORPORATE RESULTS

Turnover for the financial year ended 31st March, 2004 was HK\$819 million against of HK\$796 million for the financial year 2003. Profit before taxation was HK\$205 million as compared to loss before taxation of HK\$117 million for the financial year 2003. Profit attributable to shareholders was HK\$149 million as compared to loss of HK\$124 million for the financial year 2003. The results were encouraging and were mainly attributable to the success of our key property development project, California Garden, in Shanghai and our efforts in streamlining our operations through the disposals of non-core businesses and group reorganization over the previous years.

FINANCIAL RESOURCES AND LIQUIDITY

Borrowings and charge on Group assets

The business activities of the Group are funded by bank borrowing, unsecured loans and cash generated from operating activities. The Group's total bank and other borrowings amount to approximately HK\$1,667 million as at 31st March, 2004 (2003: HK\$1,594 million), in which HK\$462 million was payable within one year and HK\$1,205 million was payable after one year. HK\$1,435 million of the borrowings was secured while the remaining HK\$232 million was unsecured. The Group's borrowings are primarily denominated in Hong Kong dollars.

Placement of shares and increase of Issued and Paid Up Share Capital

Refer to the announcement dated 5th September, 2003, the company placed out a total of 165 million shares with a placing price of HK\$1.20. The net proceeds of the placement after deducting relevant expenses is approximately HK\$193 million.

Zero Coupon Bonds

As announced in the announcement dated 11th March, 2004, the Company entered into the Subscription Agreement with Deutsche Bank on 10th March, 2004 whereby Deutsche Bank agreed to subscribe for the Firm Bonds to be issued at par by the Company in an initial aggregate principal amount of US\$60,000,000 (approximately HK\$467,538,000). In addition, the Company has granted to Deutsche Bank an option to require the Company to issue the Optional Bonds up to a further aggregate principal amount of US\$6,989,000 (approximately HK\$54,460,000) at par.

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Due to the strong market demand, the Firm Bonds were fully subscribed and on 13th April 2004, Deutsche Bank exercised the option to require the Company to issue the Optional Bonds in the aggregate principal amount of US\$6,989,000 (approximately HK\$54,460,000) at par.

Contingencies and commitments

Contingencies

For the year ended 31st March, 2004, the Group has given guarantee in respect of mortgage loans provided to the home buyers of a property in the PRC. At 31st March, 2004, the total amount of mortgages outstanding which are subject to these guarantees was HK\$36 million (2003: HK\$28 million).

Commitments

At the balance sheet date, the Group had capital commitments contracted but not provided for property development projects of approximately HK\$561 million (2003: HK\$507 million) and the capital commitments authorised but not contracted for property development projects, hotel refurbishment and upgrade and jointly controlled property development project of approximately HK\$346 million (2003: HK\$160 million).

Gearing ratio

The gearing ratio (total bank and other borrowings to shareholders' equity) for 31st March, 2004 was 61% (2003: 69%).

Current ratio

The current ratio as at 31st March, 2004 was 1.40 (2003: 1.30). The Group has maintained sufficient liquid assets to finance its operation.

Exchange rate

The Group was not exposed to material exchange rate fluctuations during the year.

Pledge of assets

As at 31st March 2004, the Group's properties, bank deposits and securities with an aggregate net book value of approximately HK\$2,603 million (2003: HK\$2,204 million) HK\$5 million (2003: HK\$19 million) and HK\$2 million (2003: HK\$1 million) respectively, together with properties of associates and third parties were mortgaged or pledged to the Group's bankers and loan creditors to secure banking and loan facilities to the Group and its associates to the extent of approximately HK\$2,021 million and HK\$5 million (2003: HK\$1,987 million and HK\$5 million) respectively.

The group's listed investment of approximately HK\$38 million (2003: HK\$20 million) were pledged to the Group's financial institutions to secure margin trading facilities granted to the Group in respect of securities transactions to the extent of approximately HK\$8 million (2003: HK\$8 million), of which HK\$2 million (2003: HK\$5 million) were utilised.

Material acquisitions and disposals of subsidiaries and associated companies

On 24 December 2003, the Directors jointly announced with the board of directors of Far East Technology International Limited ("FET") that the Sale and Purchase Agreement was entered into between, inter alia, Smartland Assets Limited ("Smartland"), the Company and FET and Mr. Dennis Chiu on 22 December, 2003 whereby FET and Mr. Dennis Chiu have conditionally agreed to sell to Smartland and Smartland has conditionally agreed to purchase the Tang City Properties Limited ("TCPL") Shares, which represents 100% of the issued share capital of TCPL for a total consideration of SGD1 (equivalent to approximately HK\$4.50) in cash and in kind by procuring the Refinancing of SGD24 million (equivalent to approximately HK\$112.5 million) by way of term loan.

Save as disclosed above, there was no material acquisition and disposal of subsidiaries and associated companies by the Group during the year.

REVIEW OF OPERATION, OUTLOOK AND STRATEGY

1. Property Development Division

Hong Kong

Bakerview, Hung Hom – a 32-storey commercial-residential development with a total gross floor area of approximately 55,000 sq.ft. comprises of 104 residential units, 26 car-parks and 2 floors of shopping units was completed with the occupancy permit obtained in late November 2002. As of the date of this report, approximately 70% of the units have been sold.

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Clear Water Bay Knoll, Sai Kung – a 15 detached house development with a total gross floor area of approximately 18,000 sq.ft. built on a 30,000 sq.ft. site. Construction was completed in late 2003 and the occupancy permit has been obtained. The sale was launched at the first quarter of 2004.

Art Del Sol, Sai Kung – a proposed development of 24 houses with a total gross floor area of approximately 53,000 sq.ft. Building work on phase 1 has completed and the group has recently been issued the certificate of compliance. The pre-sales were launched in the last quarter of 2003. Development for other phases will depend on government approval therefor.

Terra Nova, Sai Kung – a 10 detached house development with a total gross floor area of approximately 12,000 sq.ft. built on a 30,000 sq.ft. site. Site formation and building works are currently in progress and completion is expected in the last quarter of 2004.

Tan Kwai Tsuen, Yuen Long – this project is a 4-storey apartment development with 104 units with a total gross floor area of approximately 52,000 sq.ft. The group is in the process of applying land exchange and access road formation.

Hung Shui Kiu, Yuen Long – a 7-storey residential development project with a total gross floor area of approximately 38,000 sq.ft. The group is currently in the process of applying for land exchange. The construction work is scheduled to commence by the beginning of 2005.

Fung Lok Wai, Yuen Long – This is a joint venture project with Cheung Kong (Holdings) Ltd. and Sun Hung Kai & Co. Limited for residential estate development with a total area of approximately 8,610,000 sq.ft. No definite plan for this development at present. During the year, the Group has acquired an additional interest of 3.67% in this project. The group currently holds 25.33% beneficial interest in this project.

China

Regarding our property developments in China, we will continually assess property investment opportunities in major cities of the mainland. The middle class market is our principal focus and townhouses and low-rise condominiums are our primary products.

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California Garden, Shanghai – a residential development with a land area of approximately 14.5 million sq.ft. with an approved built-up area of approximately 12.4 million sq.ft. Upon full completion of the development, this project will boost a total of approximately 8,000 units of a mixture of residential and commercial properties with more than 97% are residential units. Prior to this year, a total of 2,400 units of residential and commercial development have been built with over 99% sold since its first phase of development in the late 90's. For the financial year ended 31st March, 2004, the company has completed 400 units and sold. The balances of approximately 5,200 units are scheduled for completion over the next 4 to 5 years.

New Time Plaza, Guangzhou – during the year, the Group increase its stake of this development from 45% to 50%. It comprises of an auxiliary building 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 expected to commence in late 2004.

Huadiwan, Guangzhou – the Group owns 100% of this development comprises of 2 blocks of 32– storey residential building with a total gross floor area of approximately 43,000 sq.m. comprises of 40,000 sq.m. of residential, 2,000 sq.m. of commercial and 1,000 sq.m. of car park. Currently the development is at the planning stage, the construction is expected to start in late 2004 and is expected to complete by the end of 2006.

Australia

Flinders Wharf, Melbourne – the Group owns 50% of this high-class residential development with 301 units apartments with gross floor area of approximately 54,000 sq.m. It is located opposite to the Melbourne Exhibition and Convention Centre and The Crown Casino. The construction commenced in February 2002 and completed in November 2003. Approximately 90% of the project has been sold as of todate.

Royal Domain Tower, Melbourne – this is a 42 level high rise complex comprised of 137 units luxury residential apartments with gross floor area of approximately 65,000 sq.m. Each of the luxurious standard apartments is costing more than A\$1 million. The project is located along St. Kilda Road in the City overseeing the Melbourne Botanical Gardens. Upon the completion, this will be one of the tallest prestige residential buildings in Melbourne. The construction commenced in early 2003 and with completion expected in late 2005.

2. Hotel Division

In the first quarter of the financial year 2004, our hotel operations were severely affected by the spread of SARS in Hong Kong. In the midst of SARS, our average occupancy had fallen

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to single digit level. But, as the SARS being controlled and the relaxation of tourist visa approvals for the mainland's travelers under CEPA, we quickly resumed the profitability of our hotel operations. This reflected our ability to capture the opportunity on mainland's visitors and our competitiveness in the 3-star hotel market.

Dorsett Garden Hotel and Dorsett Seaview Hotel, Yau Ma Tei – the Group operates two 3-star hotels in Hong Kong with a total of 368 rooms. The outbreak of SARS from April to July this year had affected the operation of the hotels. However, the occupancy rate and the room rate have rebounded since August 2003 and the two hotels continue to provide steady income to the Group.

Dorsett Regency Hotel, Kuala Lumpur – this 320-room hotel is located right at the Central Business District of the busy Kuala Lumpur. The operation of the hotel was affected during the SARs outbreak. However the room rate and the occupancy were back to normal since August and the situation continues to improve since then. The group expects the hotel to maintain its status as one of the top performing 4-star hotels in Kuala Lumpur.

Cosmopolitan Hotel, Causeway Bay, – this hotel is scheduled to complete its refurbishment work and commence operation before the end of 2004. The hotel is converted from the "old" New China News Agency Building in Causeway Bay. It is designed to be a 4-star hotel with a total of 455 rooms.

Dorsett Olympia Hotel, Tai Kok Tsui – a 21-storey hotel development with approximately 142 rooms with a gross floor area of 46,000 sq.ft. The construction is expected to complete in late 2004 and is scheduled to open for business in the first quarter of 2005.

Kau U Fong, Central – a hotel development site for approximately 162 rooms in a 34-storey building with a total gross floor area of approximately 63,000 sq.ft. Building plans had been approved by government and the expected completion date for this hotel is scheduled for the financial year 2006.

Dallas Grand Hotel, Dallas, USA – the Group has decided to review the feasibility studies of different development proposals. The group is expected to make a final decision on the hotel in the next twelve months.

3. Recurrent Income

The Group's rental income derives mainly from four commercial/office buildings in Hong Kong. The occupancy rate with the exception of Mongkok building, which had completed its renovation by March 2004, maintains at an average of approximately 90% during the year.