Chairman's Statement

The weakness in the Hong Kong economy during the year ended 31 March 2002 gave little support to the already depressed demand for industrial space. Sizeable withdrawals on the other hand were not observed. The industrial property market therefore remained relatively static but rental continued to be under pressure. For the year as a whole, overall occupancy and rental income of the Group's industrial properties in Hong Kong both reported a small decline.

RESULTS

The Group's audited turnover for the year ended 31 March 2002 was HK$210.6 million compared to HK$385.3 million for the previous year. The drop was due mainly to the absence of sale of properties (other than the sale of investment properties) which amounted to HK$162.5 million in the previous 12 months. Rental and property management income and storage income for the year under review were HK$186.4 million and HK$24.2 million, reporting decreases of 4.4% and 13.1% respectively.

Audited Group profit attributable to shareholders for the year ended 31 March 2002 was HK$91.7 million, an increase of 76.2% compared to HK$52.1 million for the previous year. Whereas the Group's profit from sale of properties was substantially less in the year under review and the results of the rental and storage operations also reported a decline, increase in investment income, reduction in finance costs and improved results of associated companies have more than counteracted the decreases and helped to lift the Group's overall earnings. Earnings per share for the year under review was HK$0.35, compared to HK$0.20 for the previous year.

BUSINESS REVIEW

Group Structure

The 40% owned associated company, Sutherland Investment Co., Ltd., USA disposed of its property in April 2001 and was voluntarily wound up afterwards.

In November 2001 the Group entered into an assets swap with the China Logistics Group Limited group for the purpose of improving the business efficiency of each other. As a result, the Group disposed of its 50% interest in the jointly held Tat Yeung Investments Limited after it has sold its 20% interest in the Shanghai China Merchants Tower, Shanghai and distributed 50% of the proceeds to the Group by way of repayment of shareholder's loan. In return the Group acquired the following interests:

- additional 45% interest in South-China Cold Storage & Ice Co., Limited in Shekou, Guangdong, Mainland China thereby making it a 95% owned subsidiary;
- additional 9.8% interest in Suzhou World Trade Center in Suzhou, Jiangsu, Mainland China, owner of a property with the same name, thereby making it a 24.8% owned associated company;
- 100% interest in Dhandia Limited which has a 5% interest in a property project in Panyu, Guangdong, Mainland China; and
- 50% interest in Tat Yeung Trading Company Limited which owns a small property in Beihai City, Guangxi, Mainland China.

In December 2001 the Group also acquired an additional 5% interest in Oceanic Cotton Mill Limited and hence an additional 5% indirect interest in the latter's wholly owned subsidiary, Chericourt Company Limited, thereby increasing the Group's interest in the Regent Centre, Kwai Chung from 75% to 80%.

The Group's results for the year under review have included the attributable results of the aforesaid companies from or up to the effective dates of their acquisition or disposal respectively.

Sale of Properties

Out of the committed purchase by Comfort Development Limited of a total of 631,000 sq.ft. in Global Gateway (Hong Kong), the sale of 422,000 sq.ft. was completed in the year before. The options to purchase other portions of the building were not exercised and expired on 15 October 2001. The committed purchase completed during the year under review according to the expiration of existing tenancies amounted to 37,000 sq.ft. A further 17,000 sq.ft. in the same building were sold to another purchaser. All spaces sold during the year were investment properties and the aggregate sale amount of HK$35.0 million was therefore not included in the Group's turnover. Profit arising from these sales was HK$9.3 million.

In comparison, in the previous year sale of spaces in both Global Gateway (Hong Kong) and Regent Centre amounted to HK$322.3 million, realising a profit of HK$31.1 million and a sum of HK$22.2 million, representing previous revaluation reserve of such properties frozen upon completion of their development, was directly transferred from land and buildings revaluation reserve to retained profits.

As for the remaining 172,000 sq.ft. of the committed purchase, 93,000 sq.ft. have been sold to date since 1 April 2002, and completion of the remaining spaces are scheduled to take place in the rest of the current financial year.

Rental Operation

In spite of the termination of leases to facilitate completion of the committed purchase mentioned in the preceding section, the occupancy at Global Gateway (Hong Kong) has continued to improve. This has helped to compensate for the decrease in the aggregate rental income from the Group's other investment properties in Hong Kong, namely the unsold portion of the Regent Centre in Kwai Chung, the Fibres and Fabrics Industrial Centre in Kwun Tong, the Winner Godown Building in Tsuen Wan and the Lucky Industrial Building in Kwai Chung. Their overall occupancy rate at 31 March 2002 was about 85%. As volume users are rare in the current market, it has been difficult to reduce vacancy in the latter two buildings which are divided into large sized units. The 9th floor of Office Tower 2 of Suntec City in Singapore remains substantially leased.

As at 31 March 2002, total floor spaces leased out by the Group aggregated about 2.2 million sq.ft., compared to 2.3 million sq.ft. a year ago.

Storage

As a result of the weakness in Hong Kong's economy and external trade, the Group's warehousing operation in Hong Kong reported reduced turnover and profit. The 51% owned warehousing operation in Zhangjiagang, Jiangsu maintained its small contribution. The results of the cold storage operation in Shekou has improved since it became a 95% owned subsidiary but reported a loss for the four months ended March 2002 due to reorganisation expenses.

Investment Incomes

The Group's 5.14% interest in Suntec City Development Pte. Ltd. ("Suntec") and 10.06% interest in Suntec Investments Pte. Ltd. ("SIPL"), both incorporated in Singapore and carried in the accounts at Directors' valuation, reported a valuation decrease of HK$47.3 million during the year which was set off to the Group's investment revaluation reserve account. The valuation decrease was mainly due to pressure in the office property market in Singapore and to a lesser extent due to exchange translation. At 31 March 2002 Suntec and SIPL were carried in the Group's accounts at HK$470.7 million. Suntec, owner of the Suntec City development in Singapore and of the Singapore International Convention and Exhibition Centre, accounted for the predominant share. It reported a 16.0% increase in turnover and a corresponding improvement in profit in its most recent audited accounts for the year ended 30 September 2001.

Suntec doubled its dividend for its financial year ended 30 September 2000 by reason of its cash surplus. The dividend was received by the Group in the year under review and the Group's dividend income was thereby lifted to HK$24.1 million. Suntec has maintained its dividend for its financial year ended 30 September 2001 and the Group's entitlement will be received in the coming months.

In November 2001 a first dividend of HK$11.8 million was received by the Group from the liquidators of a construction company to which the Group had previously advanced loans. Further dividends in a smaller aggregate amount are expected but the exact amount and timing thereof are uncertain.

Associated Companies

Changes in the Group's investments in associated companies during the year under review has been reported under the section "Group Structure" above. For the year under review, the net aggregate contribution by the associated companies was HK$1.1 million after tax. The profit on sale of a property realised by Sutherland Investment Co. Ltd. was diluted by losses of Tat Yeung Investments Limited and South-China Cold Storage & Ice Co., Limited for the 8 months ended 30 November 2001. After the aforesaid changes, the Group's investments in associated companies have been reduced from HK$100.8 million to HK$19.7 million and their future results attributable to the Group are not expected to be substantial.

Property held for Development

During the year under review, the 95,940 sq.ft. industrial/office site at 102 How Ming Street, Kwun Tong continued to be used as an open space car park with Government approval. In end June 2002 the Group accepted the Government's offer of a modification premium of HK$18.5 million for changing the land use of the site from industrial/office to office. The building covenant in the lease modification is for a period of 72 months. The development plan and the timing of its implementation however have not been finalised, nor has any financial commitment been entered into. The previous mortgage of the site was discharged during the year under review.

Valuation of Properties

The aggregate professional valuation of the Group's investment properties at 31 March 2002 was HK$1,850.5 million, reporting a valuation decrease of HK$384.0 million. After minority interests, the valuation decrease attributable to the Group was HK$341.6 million and was set off against the Group's investment properties revaluation reserve.

Valuation of the Group's other properties for sale at 31 March 2002 resulted in a valuation decrease of HK$2.2 million, which was charged to the Group's profit and loss account for the year under review.

On the basis of its approved office use, the professional valuation of the 102 How Ming Street site at 31 March 2002 was HK$453.0 million. The valuation increase of HK$152.8 million has been credited to the Group's land and buildings revaluation reserve.

Employees

Including the employees of the newly acquired subsidiaries, the Group employed a total of 164 employees as at 31 March 2002 of which 44 were based in Mainland China. Most of the employees in Hong Kong are engaged in estate management. All eligible employees in Hong Kong are enrolled to a defined contribution mandatory provident fund scheme. Other benefits are awarded at the discretion of the Group..

NEW INVESTMENTS

Sha Tin Town Lot 526

In April 2002 the Group took up a 10% attributable indirect shareholding in Landyork Investment Limited ("Landyork") which acquired Sha Tin Town Lot No. 526, No. 2 Lok Kwai Path, Area 43, Sha Tin, New Territories in a Government land auction for the purpose of a residential development. The other shareholders of Landyork are Nan Fung Textiles Consolidated Limited (50%) and USI Holdings Limited (40%).

The land cost is HK$660 million and the construction costs are estimated at HK$670 million. Completion of the development is expected to take about 4 years. 50% of the land cost has been funded by Landyork's shareholders and the Group's contribution thereto is HK$33 million. Landyork has obtained banking facilities to the extent of HK$1,000 million to finance the balance of the land cost and the whole of the estimated construction costs. As security for the said facilities, the Company has provided a repayment guarantee and entered into a completion guarantee and funding agreement both in favour of the agent for the lenders. The Company's payment and funding obligations under the two security documents are several and limited to 10% of the total secured liabilities.

"The Draycott Park", Singapore

In June 2002 Winprop Pte. Ltd. ("Winprop"), a wholly owned subsidiary of the Company newly established in Singapore, entered into a subscription agreement with Winworth Pte Ltd, Singapore ("Winworth") to subscribe 176,471 new ordinary shares of S$1.00 each in Winworth at par for cash and to advance to Winworth a loan of S$30 million. The new shares in Winworth represent 15% of its enlarged share capital, and the other 85% is held by Wing Tai Land Pte. Ltd., Singapore ("WTL"), a wholly owned subsidiary of Wing Tai Holdings Limited, Singapore. Winprop and WTL have entered into a joint venture agreement to regulate, amongst other things, their relationship as shareholders of Winworth. Winprop also acquired from WTL a portion of the loan previously advanced by WTL to Winworth for a nominal consideration such that the loans owing by Winworth to Winprop and WTL respectively are in the proportion of 15% and 85%. With the exception of the loan of S$30 million advanced by Winprop to Winworth at the time of the share subscription which bears simple normal interest at the rate of 4.0619% per annum for a period of 3 years from the date of advance and payable in a lump sum at the end thereof, the rest of the loans owing by Winworth to its shareholders are interest free. All the loans owing by Winworth to its shareholders have been subordinated to the indebtedness of Winworth to its bankers.

The Group's total cost of investment in Winworth as aforesaid is HK$133.2 million. Winworth is the proprietor of the 99-year leasehold land parcel 566 at Draycott Drive, Singapore and the condominium housing development thereon known as "The Draycott Park". Construction costs would be funded by Winworth's existing banking facilities and presale proceeds, and the development is scheduled for completion in mid 2006.

FINANCIAL REVIEW

The Group's total bank borrowings have been reduced by HK$89.6 million during the year under review from HK$848.7 million to HK$759.1 million by applying proceeds of the sales of properties and funds generated from the Group's other operations. The loans are secured by certain investment properties and other properties for sale with a total net book value of HK$1,756.4 million. Computed as the ratio of total bank borrowings to shareholders' funds, which amounted to HK$2,082.5 million at 31 March 2002, the Group's gearing was 36.5% as at that date.

The Group's total bank borrowings at 31 March 2002 comprised short-term revolving loans and overdrafts of HK$216.7 million and long term loans of HK$542.4 million and were all on a floating rate basis. The equivalents of short-term loans of HK$8.5 million and long-term loans of HK$34.3 million respectively were borrowed by a subsidiary in Singapore and denominated in Singapore dollar.

As at 31 March 2002, 12.8% or HK$69.5 million of the long-terms will fall due within the next 12 months. The repayment will be met from the sale proceeds of Global Gateway (Hong Kong) and funds from other operations.

The Group also carries other long term loans, being unsecured interest-free loans with no fixed terms of repayment from minority shareholders of Oceanic Cotton Mill Limited and South-China Cold Storage & Ice Co., Limited. The total amount has been reduced from HK$195.1 million to HK$159.2 million over the year under review as a net result of the changes in Group structure reported above.

As at 31 March 2002 the Group did not have any contingent liabilities nor any material capital commitments.

As a result of the Group's investments in Sha Tin Town Lot 526 and The Draycott Park, and after applying funds generated from sale proceeds and operations since 1 April 2002, the Group's total bank borrowings presently amount to HK$814.0 million, a net increase of HK$54.9 million as compared to the balance at 31 March 2002. The Group has also assumed contingent liabilities to the extent of a principal sum of HK$100 million in respect of its investment in Sha Tin Town Lot 526.

OUTLOOK

While there are grounds for cautious optimism in terms of recovery of the global economy, slow leasing demand and rental pressure on industrial properties in Hong Kong are expected to continue for the time being. Investment incomes other than those coming from Suntec are not expected to be maintained at the level of the year under review. However, the profit arising from the completion of the committed purchase of units in Global Gateway (Hong Kong) should be able to make up any decrease in the Group's rental and investment earnings. Despite higher bank borrowings as a result of the new investments, finance costs overall are expected to be well contained on the basis that any increases in interest rate are likely to be moderate and mainly affecting the later part of the current financial year. Barring unforeseen circumstances, it is anticipated that the net impact of these factors on the Group's profit for the current financial year should not be significant.

DIVIDEND

In view of the profit for the year under review and the prospects of the current financial year, the Directors have recommended a final dividend of HK$0.05 per share for the year ended 31 March 2002. Subject to approval of the Annual General Meeting to be held on 28 August 2002, the final dividend will be payable on 4 September 2002 to all shareholders on register as at 28 August 2002.

CHENG Wai Chee, Christopher
Chairman

Hong Kong, 11 July 2002.